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REAUTHORIZATION OF THE AGRICULTURE AND FOOD ACT OF 1981

HEARINGS

BEFORE THE

COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY UNITED STATES SENATE

NINETY-NINTH CONGRESS

FIRST SESSION

FEBRUARY 11, 1985—OKLAHOMA CITY, OK
MARCH 18, 1985—MONTPELIER, VT
APRIL 12, 1985—FRESNO, CA

PART III

Printed for the use of the
Committee on Agriculture, Nutrition, and Forestry

U.S. GOVERNMENT PRINTING OFFICE
45-994 O WASHINGTON : 1985

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REAUTHORIZATION OF THE AGRICULTURE AND FOOD ACT OF 1981

MONDAY, FEBRUARY 11, 1985

U.S. SENATE,
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Oklahoma City, OK.

The committee met, pursuant to notice, at the fairgrounds, Hon. David L. Boren, presiding.

Present: Senator Boren.

STATEMENT OF HON. DAVID L. BOREN, A U.S. SENATOR FROM OKLAHOMA

Senator BOREN. Today we have Congressman Glenn English, who will speak to us. I'll ask him to first take a seat down here to testify for us in just a minute and then we will ask him to come up and join us after that.

We are really appreciative that so many of you would come out today. I'm glad that you're here. Some were teasing me on television this morning saying I was announcing this meeting before I had awakened yet this morning and I think that's about right. But, we are really glad that all of you are here.

This is an official meeting of the Senate Agriculture Committee and all the comments that are made today will be transcribed and that record will be presented to the entire Senate Agriculture Committee and published as official hearings of the committee. So, the words that you say here today will be carried broadly to the other Members of the Senate and to the House as well. It's our hope that it will have an impact and wake up the rest of the country to the critical situation we face on the farm right now.

I am very, very pleased that several members of the Oklahoma delegation accepted my invitation to join us today to hear from you as well. Congressman English, of course, serves on the House Agriculture Committee as I serve on the Senate Agriculture Committee. We work very closely together on agricultural issues. I'm very pleased also that my colleague in the Senate, Senator Nickles, has joined us today and is very interested in the issue we are discussing; and Congressman Watkins from the Third Congressional District in southeastern Oklahoma, who also chairs the rural caucus in the House of Representatives and serves on the Agriculture Subcommittee that has an important function in providing agricultural appropriations, also is with us this morning. I'm very, very glad that we have the four members of our delegation here to hear you in person as we carry this record back to the rest.

We face a situation in agriculture that is as critical as any we have ever faced in the history of our country. In the last 4 years, we have lost, in the agricultural sector, $150 billion in equity value. We have had approximately 1½ percent of our farmers go out of business every year for the last 4 years. And with 1½ percent of our farms being liquidated and forced onto the market, we have been averaging in the last 2 years about a 10-percent drop in the value of purely agricultural land.

This year, some experts are saying that unless emergency action is taken very, very quickly that we could have as many as 10 percent of our farm units liquidated in the United States, particularly in the Great Plains region, within a 6-month period of time. I don't need to tell anyone in the room what that would do not only to the economy of agriculture, but what it would do also to the American economy. It would reach over into the financial structure of this country, reach over into the Main Street businesses, the people in New York City, Chicago, and Los Angeles would feel the devastating economic impacts of a farm collapse just as much as we would feel it right here in the heart of America's farm belt. So, what we are talking about, we think, is not just important to the farm, not just important to States like Oklahoma, but it's important to the entire country. It's time that a few people begin to wake up to what's really going on. I said the other day on the Senate floor, after Mr. Stockman made his speech saying that it was the fault of the farmers themselves completely that they went into debt because after all they knew what they were signing when they went down to the bank and borrowed the money. You know, if he worked for me, I could tell you how long it would have taken before he was either writing his letter of apology or his letter of resignation. It's however long it took me to get to the nearest telephone and dial his number.

He didn't explain to us that it was the farmers' fault that the embargoes were imposed and that our markets were taken away and he didn't explain to us that it was the farmers' fault that our dollar is so overvalued that we can't sell our products overseas. I don't remember the farmers ever drawing up the policy that brought us to that point and it wasn't the farmers that agreed they wanted to loan this money to the Latin American countries and get 25 or 30 percent interest either.

Then he talked about us all doing our fair share of sacrificing and he turned around and said that agriculture, which constitutes 2 percent of the budget, ought to take 10 percent of the cuts even though the farmers are going broke. He advocated a program to further reduce farm incomes 30 percent. Well, I think all of us, as Oklahomans and every person in the State that's involved in farming have not only been willing to do their fair share of the sacrifice; they have done a lot more than their fair share of sacrificing for a long time, but we think a fair share of 2 percent is a 2-percent sacrifice not a 10-percent sacrifice. So there is going to have to be some action taken and that's why we are here this morning.

Senator Exon from Nebraska and I have sent a letter to the majority leader indicating that we feel we cannot wait 6 months; we can't wait 3; we have got to take emergency action. Before we even begin debate on the farm bill, we have got to have emergency action in the next 30 to 60 days to divert disaster in the credit sector. There are a lot of things we can consider and I know you'll have a lot of comments today.

The banks, for example agricultural banks, should be given the same kind of help that the savings and loans were a few years ago, where they could write off their losses and capitalize them over a 10-year period of time and that way be able to work with the farmers and give them more time in the situation we have. We have said if action is not scheduled very, very soon, that we intend to tie up the action of the Senate, to filibuster if necessary, any other action to force consideration of emergency farm credit legislation. So, that's where we are right now.

Let me again just thank you for coming and I hope that this meeting will have the effect of carrying the message to all of the people of our State, and also to the rest of the country as well. I'm very pleased that others of our delegation are here. We try to work together as a team without regard to political party. When it comes down to trying to help agriculture, we are just Americans and we are Oklahomans and I'm very glad that my colleagues in the Senate, Senator Nickles, is here this morning, and Congressman Watkins. I'm going to ask them to each make some brief welcoming remarks to you and then we'll turn to Congressman English to kick us off and then we will move along to the rest of those who would like to speak to us today.

Senator Nickles, I'm very appreciative of you joining us this morning and really I want to thank all the people who are here this morning.

STATEMENT OF HON. DON NICKLES, A U.S. SENATOR FROM OKLAHOMA

Senator NICKLES. Senator Boren, I want to thank you and also thank Kellye on your staff. I think she has done an outstanding job. I think we are both fortunate. Many of you know Les Bororsen who works on my staff. We are having meetings really all around the State. We will be meeting with people in every county of the State in the next couple of weeks trying to find some of the answers and get some of the ideas from Oklahomans on how to solve some of the problems we have.

Agriculture is facing a very difficult time. It is a crisis time, crisis time in many respects. Certainly from low prices, high payments, high interest rates, the record high cost of the dollar makes it almost impossible to be able to compete as effectively as we should be able to across the board. We end up exporting 80 percent of our wheat, well over 40 percent of all agriculture commodities in the country.

So we have got to be competitive and we have got to make sure that the agriculture programs that are devised help the farmer, and do not hurt the farmer. I certainly agree, Senator Boren, that the statements of OMB Director, Mr. Stockman, showed a little lack of sensitivity and a little lack of knowledge about agriculture. It certainly was not agriculture's fault that there was an embargo in 1973–74 and an embargo in 1979. You go back to the embargo of 1980. We supplied 74 percent of the Soviet Union's grain import needs; after the embargo, it is 24 percent. Again, if you look at Oklahoma where we export 80 percent of our Hard Red Winter wheat, exports are critical and you can not cut off the major customer and then expect us to come back. Some people say, "Well, you have eliminated the embargo so your problems are solved." Not so.

Argentina and other countries took a look at the embargo and said, "Hey, this is a great opportunity." So they went out and broke new ground and they are producing on that new ground. Actually I looked at Argentina's exports and several years ago they were exporting about 3.3 million tons of wheat. That is over triple today; and that means they are competing directly with us in agricultural exports. So, we do have some real critical problems.

The cost of programs is also a problem. So, I think we have to look at everything all together and try and see if we cannot fashion a program that will help farmers and not hinder them. I will say that there has been some movement made on the short-term credit solution as far as encouraging banks to be able to write-down not only the loans, but also on interest rates. We will hear from some of our witnesses today and hopefully they will be able to tell us whether that is enough or not.

Again, Senator Boren, I want to thank you for hosting this meeting. I want to thank all of you. It is an outstanding turnout. It shows that there is a lot of concern all across the State of Oklahoma about agriculture. I look forward to hearing what you have to say and look forward to working with you in the years to come.

Thank you very much. [Applause.]

Senator **Boren**. Thank you very much. Before I call on Congressman Watkins, let me explain how we are going to conduct the meeting. There are several farm groups and organizations that are represented here today and we are going to ask them to come up in a minute for some very brief presentations on behalf of the membership of these organizations. I don't think that will take very long, because we don't want anyone here to feel that they are foreclosed from speaking too. At least two-thirds of the time of the meeting today will be open discussion by anyone who wants to speak. I ask that any person desiring to do so to come up to the front table and give your name to my agricultural assistant. Please don't get impatient during this first period because we are rapidly going to move to the rest of the audience.

I might ask if you know or at the time that you feel moved by anything that's said by anybody else that—you may have come here today not intending to make a speech but you may be kind of like me the other day when I was walking over the Senate floor reading the article of Mr. Stockman's statement, a speech just came out of me all of a sudden. So, some of you may be that way today. Something that's said may trigger an urge to get up and make a comment and I would ask you to see Kellye Eversole. Kellye, where could they come to let you know?

Ms. **Eversole**. Right here.

Senator **Boren**. Kellye will be up here as the meeting goes along, as some of those from the farm organizations are speaking and if you know you—for sure you came here to say a word today or you decide through the meeting you want to, let Kellye know and we will try to call people up in the order that they indicate that they want to say something. So, as I say, we will allow some of the farm organizations to speak briefly. We have asked them to take 2 or 3 minutes each and then we will open it up and that shouldn't take more than about 45 minutes all together and then we will open it up and anybody can say anything that's on their minds.

Congressman Watkins from the Third District, as I said, chairman of the rural caucus and very, very involved in our efforts for agriculture will speak now. Wes, we're glad you're here this morning.

STATEMENT OF HON. WES WATKINS, A REPRESENTATIVE IN CONGRESS FROM THE THIRD DISTRICT OF OKLAHOMA

Mr. WATKINS. Thank you, Senator, and I want to thank you and your staff for having this, I think, very, very important hearing. Basically I want to assure you that I've come to listen today because I know firsthand the pain and heartache and suffering out there on the farm, because I grew up as a farm boy in southeast Oklahoma and I later served as State FFA president and I lost my peanut crop to drought in 1956 and my cattle operation to brucellosis, so I know the pain of bankruptcies and hurts that take place among the family farmers.

I still loved farming and agriculture to the point I went to Oklahoma State University and I majored in agriculture and I have a couple of degrees in agriculture. So it's love of mine and one that I do not understand people like Dave Stockman and others who come out with such statements that they have made where there is much more external pressures today forcing the direction of farming than from the internal operations.

I would like to mention that today also we are faced with 3 years, back-to-back years, of lowering of land prices, losing the equity. Many years we were able to get by without a profit but we have our equity to refinance. We know we have refinanced that for the last 30 years; that's the way we have been able to stay in farming. Also I might mention that we do not have, in my opinion, today a free trade and we have got to fight for a fair trade. We are not playing on the same playing field any more and when countries——

When the government of their countries are handling those commodities and they can subsidize those commodities of give bonuses for those commodities, then we are not playing with the same deck, by the same rules we used to play 20 and 30 and 40 years ago. We have had the erosion of farmers.

Senator, when I was the State FFA president in Oklahoma, I made speeches across the country saying there are 26 percent of us in the production of agriculture. You know as I make that same speech today I say there are 2.5 percent of our people in the production of agriculture. If we had had that same erosion of any animal or plant or flower or fish, they would be on an endangered species list, literally.

Now, I want to say I'm glad to be here and I've really come to listen because, as the Senator said, I serve on the appropriating Subcommittee on Agriculture. Glenn English is on the authorizing and the Senator here is on authorizing and I've got to figure out how to come up with the money to pay for whatever we do, so I've come to listen.

Senator BOREN. Thank you, Wes.

For the many people standing in the back, there are plenty of chairs over here in the front section. If your feet get tired, feel free to come over here and take a chair; and if we run out of chairs, we can go get some more, but there are some still scattered through.

I'm going to turn now to my colleague on the House Agriculture Committee, the Congressman from the Sixth District and let me say when we are called upon to have anyone speak, whether it's on the McNeil Lehner report or national news shows representing agriculture, that time and time again the Congressman from Oklahoma is called upon to speak for all of us in agriculture. I felt very fortunate coming to the Senate and joining the Senate Agriculture Committee while having someone over in the House Agriculture Committee. I think it's the first time in many years that we have had representation on both the House and Senate Agriculture Committees. We shared information and we try to give it a one-two punch and get it to both sides of the Capitol and Agriculture Committees and there is not anybody, not only in Oklahoma. There is not anybody in the United States of America that has worked harder or been more effective for agriculture than Glenn English.

So, Glenn, I'm glad you've here this morning to be our leadoff witness.

STATEMENT OF HON. GLENN ENGLISH, A REPRESENTATIVE IN CONGRESS FROM THE SIXTH DISTRICT OF OKLAHOMA

Mr. ENGLISH. Thank you very much. I appreciate the kind words, Senator Boren, and I would also like to say that your valuable leadership in the Senate has certainly given hope to thousands of farmers not only here in Oklahoma but throughout this country. I think this hearing today is going to do much as far as focusing the attention of this Nation upon the difficulties we face.[1]

As many of you know, over the last 3 years I've had some grave concerns with regard to farm legislation we were operating under. I felt that in 1981 that it was the wrong bill at the wrong time; and, unfortunatley, I'm afraid that has been the case. I felt that we needed stronger programs. Certainly we needed to reduce the production that we had. I doubted PIK and urged a paid diversion program.

In short, I think over the past 3 years that there is much that we could have done to have solved the difficulties that farmers are facing today. I think farmers are facing pain that they didn't need to face. We are losing farmers that we didn't need to lose. Certainly under this program we have spent an awful lot of money but with very little emphasis on supply and demand, very little effort to really try to reduce production and to strengthen market prices.

The results are that we have lost 25 percent of our export markets and keep in mind that that's in comparison with a year when the embargo was in place, not before the embargo, but the year the embargo was in place. We have eliminated over 200,000 farmers. We have increased the agriculture debt to $220 billion, which is more than the debt of Argentina, Brazil, and Mexico combined. We face the greatest crisis since the Great Depression.

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[1] See p. 169 for the prepared statement of Representative English.

Now, the Secretary of Agriculture tells us he doesn't know what to do, but the plan that he has come up with is simply to increase production and drive down prices. I have here a copy of the London Times, Saturday, December 15, in which the Secretary was in Brussels, Belgium, stating that the United States would produce more and would drive down world prices.

In effect what the Secretary is saying is that the U.S. farmer should use his bank account, use his wallet to go out and match the treasuries of foreign governments. What the Secretary's program would do is this; it would drive down the price of wheat from $3.30 a bushel to $2.40 a bushel. Now, that's according to the Farm Journal's economist in talking about the proposal the Secretary came up with. It would drive down cotton prices from 55 cents to 45 cents.

Now, this impact is not going to be felt just with the American farmer; certainly not the farmers of the Sixth District of Oklahoma. In the Sixth District, however, it's going to be a loss of income of $375 million, comparing the price of 1985 with that of 1988. The economic impact on the Sixth District of Oklahoma is going to be in excess of $1 billion—$1 billion. The question we have to ask ourselves is not a question of how many farmers are going to go out of business, but how many rural communities in western Oklahoma are going to be totally eliminated. As far as the State of Oklahoma itself is concerned, the impact on wheat and cotton alone is going to be over $500 million. That means an economic impact in excess of $1.5 billion. That means that Oklahoma City and Tulsa and every community in Oklahoma will feel that as well.

Basically what the Secretary has proposed to us is that we follow a program of survival of the financially fittest, not the best farmer, not the ablest farmer, not the farmer who has been the most conservative, who has attempted to utilize his assets in the best way, but that farmer who is financially the strongest, which means it will be our older farmers, probably our retired farmers in the end who will finally survive. That means the elimination of family farming in this Nation forever.

Quite frankly, I don't think the answer or the solution is any mystery. What we need to do is bring supply and demand into balance the same as any other business or industry in this Nation would have to do under similar circumstances. We have to strengthen market prices. In effect the only solution is profit. Profit, that has to be the answer. That has to be the solution and that should be the goal that we are striving for.

A lot of attention is being focused on credit and I certainly credit Senator Boren and Senator Exon. I know they are working hard in the Senate and there is some legislation taking place in the House. I plan to introduce some legislation of my own shortly after we get back.

I think we ought to have this credit approach targeted in two areas. First of all, to try to help farmers put in a crop this year. There are a lot of farmers who can't, farmers who have to put in spring wheat and corn. The second and perhaps the most important factor in addressing the credit issue is to stop the erosion of equity because the equity of every farmer is deteriorating rather rapidly. I know the Federal Reserve Bank in Kansas City has pointed out here in Oklahoma we have situations where 40 percent of the equity has eroded over the past 3 or 4 years. We also have to keep in mind the cost. It's estimated that agriculture is going to have to take some cuts and I think that's true.

There is no segment of the American economy that is more sensitive to interest cost and certainly the value of the dollar has damaged our markets abroad. American agriculture is going to have to do its fair share as far as reducing the budget deficit that is keeping interest rates up and keeping the value of the dollar high. We have to focus on that. But, as you point out, Senator Boren, agriculture should not be asked to take more than its fair share, certainly not with the crisis that we have at hand. It comprises 2 percent of the budget, but the administration is asking that it take 10 percent of the cuts. I don't think Congress will allow that. At least I hope not. I think in the end agriculture should be expected to take 2 percent of the cuts.

But it means that we are going to have less money to work with than we had before. The estimates are that agriculture will have approximately $12 billion available this year for incentives and aid to farmers. So I think we have got to weigh very carefully the money that is spent in regard to assisting in the area of credit against what is going to remain and help the farmers in the long run. It isn't going to do a whole lot of good if we save the farmer for a year or so and then in the end he has lower prices and he doesn't have a chance to survive anyway.

What I would suggest is this, that we try to target very carefully where we spend those dollars, that we focus on the issue of equities, and that we try to slow down the deterioration of that equity and we try to make certain that farmers are saved as well as the banks and lending institutions around this country. But equity has to be the key and I think that reorganization has to play a part in that.

Foreign markets have done great damage to the Nation. As I mentioned before, we have lost 25 percent of our foreign markets over the last 3 years. One of the reasons are subsidies. Argentina was mentioned and certainly Argentina has become a competitor, but just last spring, less than a year ago, the Secretary of the Treasury advanced Argentina $500 million and for what purpose? To assist them in expanding their agriculture and their agriculture exports. Why was this money forthcoming? Because we felt guilty about backing the British in the Falklands war. But in the end it was the American family farmer who paid the price not the U.S. Government and certainly not our foreign policy. I think that's a point that has to be driven home; and it is that foreign policy is a very big price and this price is not being paid by the American taxpayer but instead is being paid by American agriculture.

The solution is reciprocity. We have to go to these countries, whether it's Canada or the European Common Market, whether it's Argentina or Australia and we have to let those countries know that the farmer is not going to be out there alone, as the Secretary would suggest, but instead the U.S. Government is going to be behind the American family farmer and if those governments intend to use subsidies, they have to expect that the American family farmer is going to be supported by his Government as well. [Applause.]

In response, less than a week ago, last Wednesday, I introduced legislation which would earmark $1 billion out of the Commodity Credit Corporation's revolving fund strictly for the purpose of reciprocity, to let those countries know that those funds are there and that would be a part of the 1985 farm bill; that they can no longer with impunity expect that they are going to be able to subsidize their exports and undercut the American family farmer.

We also have to address the issue of production. As I said, supply and demand is the ultimate key. Agriculture is no different than any other industry and we have to keep the balance. That's where the problem is today. We have got to produce what we can sell and that's no great mystery either. We know pretty much how much we are going to consume each year here in the United States and we know pretty much what markets we are going to have available to us next year and that's what we ought to be trying to produce for—and not more.

We are going to have some financial incentives. We are not going to have financial incentives that we had in the past. We are not going to have the funds available to us in past. But only one-third of the farmers last year participated in the program in wheat—only one-third.

The reason is not because farmers didn't want to cut back. The reason is not because farmers didn't want to strengthen the market price. The reason is because the program that's in place today discourages those farmers from participating, whether it's the $50,000 payment limitation or the proposed program as the Secretary writes it.

We have got to have some new ideas. We have got to have some innovative incentives. There are an awful lot of new discussions taking place in agriculture. There are an awful lot of new ideas coming from the members of the agriculture community, from Members of Congress and others. There is going to be a lot of discussion and quite frankly a great deal of confusion over the next few weeks and months as we talk about the 1985 farm bill.

What I would suggest to Oklahoma farmers is that they sit back and take a look at these new ideas, that they consider them, that they weigh them. Some are going to be good ideas and some aren't going to be so good. But it's the thinking, it's the process that I'm encouraged about. What it means is we are going to turn away from the problems that we've had with the 1981 farm bill with some new ideas and some new approaches. It means that we have a chance to write a farm bill that's designed for the time regardless of the political philosophy, regardless what farm organization is presenting it. Policies that actually are designed for the problems that we are facing. Regardless of which political party might be supporting it. I think that's encouraging. I think it's very encouraging.

But, I think in the end these new incentives must meet three tests. One is that this farm bill has to cost less than the previous farm bills. The incentive has to be strong because the American family farmer has to have a chance to make a profit. The third and the bottom line is that if there are going to be any low prices in this world, the U.S. consumer has the right to expect it. With a 9 to 1 urban majority in the House of Representatives, if we are going to pass a farm bill, we have to expect that we recognize that point.

In the end, gentlemen, the only solution is profit. It has to be profit. That has to be the bottom line. That has to be where our focus is as far as this legislation. That's the only thing and the only chance that we have in saving the American family farmer.

It is not just the American family farmer who has something at stake here today. Not many people recognize whether they are farmers or consumers that we don't write a farm bill for the farmer. For the last 50 years the objective of the farm bill has been to provide an abundance of the food and fiber to the American public at a reasonable price and if you look at it in that light you can see that the American consumer has got a bargain. He's got a tremendous bargain. He has not only gotten food at reasonable prices, many times he has gotten it below the cost of production and that's why we have got the American family farmer going under.

So, I would simply say this to our urban cousins, to those consumers whether they live in Oklahoma City, Tulsa, or New York City or wherever they are around this land; they have got to understand this, that unless we act, unless we act in this 1985 farm bill and give the American family farmer a chance to make a profit, we can no longer write a farm bill that is going to assure them that they are going to have reasonably priced food and fiber in the future. Future generations won't have that assurance, they won't have that protection. It will be a few, a very small few, that will produce the majority of the food and fiber for this country and I can assure you that they are not going to produce at a loss. They are going to decide what price they want and they are going to produce enough to make sure they can get it and that's what is going to happen and I don't think the American consumer is going to appreciate that fact and certainly that is not going to be in the best interest of this Nation.

Let's get on with the fact and get a bill that provides a profit for the future for the American family farmer. Thank you very much.

Senator **Boren**. Thank you very much.

I think it's always so strange when our people are spending only 16 percent of their income for food while it's 25 percent in Western Europe and 45 percent in places like the Soviet Union that there is talk about how the farmers will be subsidized. It's the farmers, operating below the cost of production, that have been subsidizing the rest of this country for years and years and years and now are going into bankruptcy.

I'm going to ask a couple of groups to come up. We won't call them a panel—but to come up at the same time in order to conserve time. We are going to try to go along about 3 minutes each. All their written statements will be put in the record.

Elmo Brinkman of Duke is the president of the Oklahoma Wheat Growers Association; Bill Cayton of Boise City, representing the

Grain Sorghum Producers Association; Elbrege Sullivan of Lawton, representing Oklahoma Milk Producers, if they would come up to the front table right here, and we will have their comments now.

Now, as I say, Kellye is back over here and if there are others—I know we have about three or four groups here that will come up—we will throw it open and everyone in the audience that wants to make a comment is invited to do so.

Let's see, Elmo, I think we will let you lead off and we appreciate very much your being here. These are all familiar faces to us, because they come up often arguing on behalf of Oklahoma producers and we appreciate your being here this morning.

STATEMENT OF ELMO BRINKMAN, PRESIDENT, OKLAHOMA WHEAT GROWERS ASSOCIATION

Mr. **Brinkman**. Mr. Chairman, Senator Boren, and the rest of our national delegation, ladies and gentlemen, I'm Elmo Brinkman, president of the Oklahoma Wheat Growers Association. The Reagan administration is telling the world that American agriculture is at its crossroads. The farm programs, dating back to the 1930's are outdated and no longer serve their intended purposes. As a part of a national drive to achieve a balanced budget that agriculture should be prepared to do its part.

Let's examine the record. Who bore the brunt to the U.S. response to the Soviet invasion of Afghanistan? What about the Polish response to Solidarity? Who suffered the wrath of the Chinese textile response? And who is shouldering a major burden of the cost of quotas in automobiles and in steel? Now, just how large is our part?

Administration officials say existing policies distort production of prices and Federal budget and some, notably the Budget Office, would eliminate many of these present loan and credit policies. The economists and administration agents point to the failure of farm programs as a source of farm credit problems. And because they are base evolved in the 1930's, call them outdated and ineffective.

These are the same farm programs that provided an acreage increase in the U.S. share of the global trade of wheat exports is 36 percent in 1970 and 1971 to a high of 48 percent in 1981 and 1982. In the past 2 years, the upward trend in the U.S. trade share has been dramatically reversed and dropped to 38 percent. What has changed? Not basic farm programs.

Physical and monetary policies are at the root of our problems. New farm program management has been conducted in a knee-jerk fashion, ranging from neglect to a frenzied PIK Program and poor administrative decisions that needed to be corrected has cost and escalated because of inconsistencies in administration and destablized agriculture. When the Carter embargo was instituted, wheat producers lost a very important trading partner, creating a trading vacuum that Argentina, Australia, and Canada quickly hurried to fill.

Ladies and gentlemen, for the record, the total deficit outlays during President Reagan's first term equaled $539.2 billion, equal to all our national budgetary shortfall from 1789 to 1978.

What was the projected outlay for farm price supports? $6.8 billion, or 2 percent—0.2 percent of the gross national product and 0.8 percent of the Federal outlay. And what do farmers and ranchers coupled with their associated interests in our food chain contribute? $627 million in 1982, or about one-fifth of our gross national product of $3.073 trillion. We provide the jobs for more than 24 million workers or 21½ percent of our entire work force.

How have we prospered in the midst of the economic recovery? Collectively agriculture's assets have declined about $45 billion and the debt increased $34 billion in 1981 through 1983. Now, that is the record.

Now, the administration says that we must become more market-oriented and compete individually against our wheat exporting nations and treasuries. Secretary Block says that it might hurt a bit. Well, I guess it's like taking castor oil, distasteful, but good for you, but everything will come out all right at the end.

The root of my concerns, my friends, is this: If we are to become more market-oriented and compete against and as individuals against State trading systems and carrying on our back the cost of the farm debts equal to the combined debt of Brazil, Mexico, and Argentina, there is only direction for my industry and that is down. We cannot carry an added burden of offsetting effect and our exchange and export our products. If we are to serve only the domestic market, then land values, which is our main asset will crash and the result will be the same.

George Bernard Shaw wrote, "You see things and you say why, but I dream things that were never and I say why not." Democracy depends upon dreams. I dream of better times, of a better farm bill, and a policy change that will bring back our pride and our self respect and an opportunity for a profit.

We are not responsible for policy decisions that price our product out of the market and you can't negotiate a quota, a quota system worldwide for our products. People are responsible for their actions and it also applies to governments, but don't pass the burden on to agriculture, for we can't carry it.

Thank you for your time and for your concern.

Senator BOREN. Thank you very much, Elmo. I think what I'll do is ask the other two to comment and then if anyone has a question, we will then address the questions to the three of you.

Bill, would you go next?

STATEMENT OF BILL CLAYTON, REPRESENTING THE GRAIN SORGHUM PRODUCERS ASSOCIATION

Mr. CLAYTON. Thank you, Senator Boren, and members of the committee, I'm Bill Clayton of Boise City.[1] I thank you for the invitation to speak before you today, to speak for the Grain Sorghum Producers Association. We are greatly concerned about the condition of U.S. agriculture and even more concerned about some of the proposals of the 1985 farm bill.

We believe that this hearing is evidence that you share these concerns. America has never feared hunger. American farmers are so productive that even without full production they produce 40 percent more farm commodities than the Nation can consume. The American consumer gets the most reliable supply of the best food for the cheapest price in the world.

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[1] See p. 170 for the prepared statement and additional material furnished by Mr. Clayton.

The USDA Economic Indicators of the Farm Sector Cost of Production Report for 1983 states grain sorghum farmers on the national average had a loss of $39.13 per acre in 1983. The southern plains area, including Oklahoma farmers, had losses very close to the national average. They recorded losses of $30.46 per acre in 1983.

We hear a lot about today the market-oriented farm program as if it was a new idea. Grain Sorghum Producers Association has always been market-oriented. We were the first to conduct overseas market development for the U.S. feed grains. Since the late 1950's, GSPA has continued aggressive export promotion and we plan to keep it up. We do not believe, however, that we can export our way out of the present crisis. Last year the United States held 71 percent of the world export trade of corn. If we had a total monopoly on the world's export trade of corn, we would still be producing a surplus. A similar situation exists with other commodities. World carryover stocks of wheat and sorghum would more than fill the world export needs for 1 year.

The plan proposed by the administration, the international grain trade and some well-known economists is based on two ideas: One, that without Government support, prices will drop to market-clearing levels and the American producer will eliminate their competition of the world market; and, two, that lower prices will control production and prevent surpluses. These ideas have been tested and found faulty several times in recent history.

The first premise assumes that all world producers are competing in the same conditions, monetary systems and regulations and that the most efficient producers will sell at the lowest price. Nothing can be further from the truth. U.S. fiscal policy is the greatest single factor in the world market. After that comes regulations affecting wages and production practices and many other factors over which farmers have no control. If lower prices are the answer to export volume, then we should have increased exports in 1982 when most of the grain was produced outside the Government program and market prices were 42 cents per bushel below the loan. Instead, exports actually declined by 15 percent that year.

The second idea ignores the fact that most farming costs continue whether production is at minimum or maximum levels. When prices drop, most farmers respond by trying to increase production. When prices are low in only one or two commodities, farmers can switch to other crops. But, when prices are low for all crops, farmers have no option except to hang on as long as possible.

More than 2 years ago, the national board of directors of Grain Sorghum Producers Association began developing a plan which would assure producers an opportunity to make a profit and, at the same time, reduce the cost to the Government. Our program would combine supply management with an aggressive market expansion program. Producers would be assured prices at the national average cost of production as established by the USDA. CCC loans would be used for orderly marketing only and would be repaid with no debt cost to the Government. Overall, Government cost would be greatly reduced by our program. Most of the cost would be in its administration and in export expansion programs.

I have attached an outline of the National Food and Fiber Security Program for your consideration.[1]

Again, I thank you for giving me the opportunity to present our views. I will be happy to answer your questions at this time or you may address them to our office, Grain Sorghum Producers Association, Box R, Abernathy, TX.

Senator **Boren**. Thank you very much. Now, I'll call on Elbrege.

STATEMENT OF ELBREGE SULLIVAN, MEMBER, OKLAHOMA DIVISION, ASSOCIATED MILK PRODUCERS, INC., LAWTON, OK

Mr. **Sullivan**. Mr. Chairman, I introduce that whole paper to you, the whole 214 pages simply because I want to impress upon the people the importance of the constitution itself as well as its circulation in southwest Oklahoma.[2]

Senator Boren, Senator Nickles, Congressman English, Congressman Watkins, my name is Elbrege Sullivan, a dairy farmer from Lawton, OK. I am a member of the Oklahoma Division of Associated Milk Producers, Inc. I appreciate this opportunity to comment on the conditions facing Oklahoma agriculture and to address issues that will be considered as part of the development by the Congress in the 1985 farm bill. On behalf of my fellow farmers, I want to extend my thanks to you, Senator Boren, for convening this session.

The year 1985, is a year of significance to me personally, Senator Boren, first because it marks the 50th year, 50th anniversary, of my involvement in dairy farming; second, because in the year 1985 I face the most dismal outlook for all those 50 years as a dairy farmer. I say dismal, because of the vibes and the position statements coming out of the Secretary of Agriculture's office. Just think back, Senator Boren, in your mind you know that 50 years ago would put me on the brink of the Dust Bowl era, a time when the Great Depression was just coming out from this brink. So you can see that—and you also know that agriculture commodities adjusted for inflation rivals those prices back in the Dust Bowl days.

Yes, agriculture is at the crossroads. I would agree with Secretary Block in that statement, but that's about the only statement that I can agree with him on. Senator Boren, the Secretary's position wants to disembowel the only protection agriculture has had through his dismantling of the price supports and target prices for agriculture. The Secretary is in gross error when he assumes agriculture can stand on its own two feet as well as compete with agriculture's protected and subsidized export competitors. Nothing has been said about the elimination of the protectionism of the other industries in the United States such as the auto, steel, export shipping, and others, but I'll have to say this, including the Chrysler bail out, I have an understanding of their problem.

Farmers have been accused of being foolish and greedy when actually they are in a terrible economic, chaotic position, credit position, because they have tried to retool their operation to become more efficient. All in order to provide cheaper food for the American consumer. I'm going to eliminate a lot of my presentation because you, Senator Boren, and you, Congressman English, have eloquently substituted for my presentation and I'm talking about the statistics that you've already quoted.

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[1] See p. 172 for a reprint of the outline referred to by Mr. Clayton.

[2] See p. 174 for the prepared statement submitted by Mr. Sullivan.

During the late 1970's, dairy farmers enjoyed relatively strong and stable markets and that's not surprising because there was a fairly good economic balance in agriculture during that period, but as conditions in the other sectors of agriculture deteriorated, those resources began to shift to dairy and this is the reason we with dairy farming interests are anxious that we have a healthy and strong balance in all of agriculture. We are not interested in cheap grain prices.

Now, let me tell you about an almost success story. I say almost, because we—it appears that we didn't—we are not going to quite reach our goal established in the Milk Diversion Program of reducing that excess supply of milk by March 31. If we don't reach our goal, it's because of the action taken by the insistence of the administration to shorten the milk diversion period from 24 months down to 15 months and then the elimination of the disincentive or penalty features of our program that we dairy farmers wanted. It appears now as though the people of the Secretary of Agriculture's office wanted the Milk Diversion Program to fail.

The Milk Diversion Program has accomplished a great deal of what it was intended to do, lowering of the CCC purchases from 16.8 billion pounds of milk in 1983; it has lowered it to 10 billion pounds; and the latest USDA projection is that by the time the program is over, the 1985 projection figures will be about 6.6 billion pounds. Now this, keep in mind, is only 1.6 billion pounds above the necessary cost to the program that the Government has in their food and service activities from the CCC products.

Now, the CCC cost in purchases went down with the cost decrease from some $2,592 million in 1983 down to $1,588 million in 1984. This is more that $1 billion decrease in the cost of the price support program to the U.S. Treasury. Now, this was done in just 1 short year, 12 months we are talking about here, not the full 15, because that program is still having some very active end results. We are purchasing CCC stock now at less than 25 percent of what we were purchasing during the same period of the year 1983, the Milk Diversion Program had to have some time to really get into effect.

Not only are we talking about the short period of time, we are also talking about the cost of this Milk Diversion Program. It was a program farmers carried by themselves on the 50 cents assessment program, rather than tax dollars. I refer to Ferdie Derring, and the rest of you in the media here in this audience today, this milk diversion was not a Government subsidy program. This was a program that we carried ourselves, out of our own pockets and we felt the pinch of that cost. We now understand how the U.S. Treasury feels.

The dairy industry has established a track record with the Milk Diversion Program without infringing upon any segment of agriculture, including the livestock industry who was so fearful that this program would be interfering with the livestock market. It didn't.

Looking toward the 1985 farm bill, yes, we would like to extend the Milk Diversion Program at least until the enactment of the 1985 farm bill, but we are not pushing for that provision in the 1985 farm bill. We would like to see the provisions of the 1985 farm bill do four things:

Maintain farm income—not bankrupt the industry as the administration's program would do.

Second, we want to reduce Government costs further. Let the dairy industry carry the load as it did in the Milk Diversion Program.

Third, avoid excessive production reduction in any area so that certain segments of our citizenry would not be left without our valuable product.

Fourth, provide for a simple and direct administration. Milk diversion was somewhat complicated and a simpler program can be developed.

The dairy industry has a four-point program to accomplish that, which I have just outlined. To satisfy those four points, we in Associated Milk Producers are suggesting a self-help-type program, known as two-tier pricing. This program is similar, Senator Boren, to the one you coauthored in 1982 and we appreciated your participation in that activity. That program was successful in 1982 through Congress, but by the influence and the objection of the administration, because they thought this might interfere with exports, was turned down.

Certainly we in the dairy production business want a self-help program. We don't want deficiency payments, deficiency handouts from the Federal Treasury as suggested in the administration's program. We would expect, however, a continuation of the use of approximately 5 billion pounds of milk—and everybody seemed to agree that that 5 billion pounds of milk equivalent is what is needed to satisfy the Government programs and offset the imports that are coming into this country. So, we want a self-help program, not a Government relief program.

We believe in agricultural's farm family, the family farm, and we believe this is what made this Nation the envy of the world, the family farm. So we are anxious to help you maintain this concept for the future.

Please call on us if we can be any help to you, Senator Boren, we thank you for this opportunity to present this position.

Senator BOREN. Thank you very much. Thank you.

I want to ask if there are any questions up here? We have had some excellent testimony. We will get all of it in the record. Any questions from the Congressmen?

Thank you all very much. We appreciate the excellent testimony that has been given.

I want to ask now if Oris Taylor is here? I want to ask Oris Taylor, Jim Eatherly, and Bill Crawford if they would come forward right now. I want to inject into our hearing a discussion of the credit picture, the immediate credit picture, before we go back and get on with the discussion of the commodity programs.

Oris Taylor of Guthrie is a board member of the Chandler Production Credit Association and talks some from the PCA perspective; Jim Eatherly from Tonkawa represents the Community Bankers Association, and Bill Crawford represents the Oklahoma Bankers Association. Gentlemen, we appreciate all of you being here and wonder if you might give us some suggestions as to what we might do from your perspective in the immediate future, from an emergency point of view, to deal with the credit crisis that we have now.

If we don't get some emergency help, long range solutions are going to be moot for a lot of people. I ask you to summarize the highlights of your testimony and we will take the full testimony for the record so we can continue to hear as many people as we can.

Do you have any choice as to which one of you goes first? Does it matter?

Bill, why don't you start over here and work that way. Bill Crawford.

STATEMENT OF WILLIAM CRAWFORD, CHAIRMAN, FIRST NATIONAL BANK, FREDERICK, OK

Mr. **Crawford**. Thank you, Mr. Chairman, I'm Bill Crawford, Frederick, OK and today representing the Oklahoma Bankers Association.[1] As previous testimony has stated, farmers are caught in a cost-price squeeze due primarily to sustained periods of high interest rates, low commodity prices, unusually poor weather conditions, and high production costs. The farm crisis situation has forced many people to leave the family farm. In Oklahoma 3.8 percent of the farmers left business in 1984. This compares with 2.4 percent in 1983 and 2.1 percent in 1982. This is the worst crisis in agriculture since the Great Depression.

The ag picture in Oklahoma will grow dimmer in the next 6 to 8 months. Dropping land values, continuing high interest rates, a strong dollar and good crops among competitive grower nations suggest a tightening financial squeeze in the year ahead our Nation's debt burden farm economy is on a downward slide.

A good barometer of what's happening in agriculture is farmland values. Nonirrigated farmland in Oklahoma sold for an average of $668 an acre in 1979. At the end of the 1981, nonirrigated acreage was bringing $812 per acre. In October of last year, the value of nonirrigated farmland had dropped to $634 an acre; $34 an acre lower than it was selling for in December of 1979. Most of us would agree real estate values have not hit the bottom yet. The value of other collateral commonly held by our ag customers has also declined.

A national survey of ag banker indicates the financial condition of 85 percent of the ag borrowers has deteriorated over the past year. The same national survey has asked bankers what percentages of their ag borrowers would they be unable to loan in 1985. The answer was 13 percent.

Senator **Boren**. Let me hear that again.

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[1] See p. 179 for the prepared statement of Mr. Crawford.

Mr. CRAWFORD. The national survey asked bankers what percentage of their agriculture borrowers would they be unable to loan in in 1985. The answer was 13 percent. The same question was asked in 1983 and 1984 with the answer being 3 and 7 percent, respectively.

Senator BOREN. So, the figures had tracked pretty well with the number of farmers that have been forced out of business and now they are projecting 13 percent.

Mr. CRAWFORD. Yes, sir, that they would be unable to loan in 1985 compared to 3 percent 2 years earlier. It is apparent that ag borrowers in Oklahoma and other Midwestern States are unable to service their debt.

A 1980 survey of banks indicated that only 8.7 percent of the banks polled experienced a drop in their loan repayment rate. The same question was asked in June of 1984, is the rate of repayment lower than the year earlier? Nearly 50 percent of the bankers said yes. And when those loans fail to perform, banks must charge them off immediately with some banking industry authority seeking to amortize those losses over a 10-year period.

The amount of debt-owed-to-asset-held is at record level. National figures indicate that 16 percent of all commercial-sized farm operations—meaning farmers with over $40,000 in annual sales—have debt-to-asset ratios above 70 percent and 22 percent of the farmers have debt-to-asset ratios in the 41 to 70 percent range. This 38 percent of commerical farmers, roughly 250,000 individuals, who are leveraged above 40 percent in assets owe two-thirds of that total farm debt of about $215 billion. We believe those figures hold to be true for Oklahoma bankers also.

The most ag borrowers can hope for this year is to make their interest payments. Estimates indicate over 90 percent of Oklahoma's full-time farmers lost money in 1984.

The Federal Reserve bank's 10th district, which includes Oklahoma, farm bankruptcies jumped from 0.6 percent in April of 1983 to 1.3 percent in October of 1984. Forclosures moved from 1.1 percent to 1.7 percent in the time—same time frame. Partial liquidations in the same period increased from 4 percent to 5.7 percent.

A western Oklahoma bank reports nearly 50 percent of their 62 ag customers and cannot service their debt and almost 10 percent of their ag borrowers maybe forced into liquidation within the next year.

Senator BOREN. What percent in western Oklahoma could not service their debt?

Mr. CRAWFORD. A western Oklahoma bank——

Senator BOREN. One bank.

Mr. CRAWFORD. One bank reported that nearly 50 percent of their 62 agriculture customers could not service their debt.

Senator BOREN. 50 percent.

Mr. CRAWFORD. Almost 10 percent of their ag borrowers may be forced into liquidation within the next year.

Some banks predict that within 3 years 1 out of every 4 farmers will no longer be in business.

A comprehensive solution is needed to adequately address the farm debt and credit crises. Any solution to the ag crisis should begin with sincere efforts on the part of the administration and both Houses of Congress to balance the Federal budget. We believe the balanced Federal budget lies at the heart of any solution to the dilemma in agriculture.

In many cases, interest paid is the largest annual expense item for farmers. When the Federal Government brings spending in line with revenues you'll begin to see easing in the credit markets and the interest rates will slide and with that a weakening dollar in foreign markets. However, there are no easy answers to a problem as complex as this.

We feel confident that the meeting between farmers, lenders and Government officials in hearings such as this are steps in the right direction. But without immediate action by Congress and by the administration, the human tragedy of the agricultural crisis will worsen and the prospects for the future will vanish.

Mr. Chairman, I thank you.

Senator **Boren**. Thank you very much, Bill.

I hate to hear those statistics, but I hope that those who read the transcript in Washington will be awakened by what you said.

Jim Eatherly, past chairmen of the Agriculture Division of the American Bankers Association.

STATEMENT OF JAMES R. EATHERLY, CHAIRMAN, AGRICULTURE DIVISION, AMERICAN BANKERS ASSOCIATION

Mr. **Eatherly**. Senator Boren, and Committee members, it's a pleasure to appear before you today and discuss agriculture conditions not only in Oklahoma but across the Nation as well.

I find it shocking that in Africa a farmer and his family must work every hour of the day in order to barely sustain themselves with a large area of the country existing under starvation conditions while in America one farmer produces food not only for his own family but feeds 75 others as well. Here we have one farmer starving because he cannot produce enough and another going broke because he produces too much.

Oklahoma farmers are experiencing continued financial problems. This is clear evidence of declining land values and an almost nonexistent farm real estate market in some areas. Farm commodity prices continue at very low levels, depressing farm income, and classifications of agriculture credits are increasing at commercial banks. These conditions are particularly prevalent in the north central and western sections of Oklahoma. According to various sources 200,000 or approximately 10 percent of the 2.4 million farmers in the United States could well be out of business within 4 years. The financial distress is most severe in the medium size farms having debt-asset ratios above 40 percent. Ten percent of all farmers fall in the category. Oklahoma farmers are no exception.

The passage of a suitable and equitable farm bill has the attention of Congress at this time and rightfully so. But, I am inclined to think it is equally important to address immediately the financial problems of approximately 10 percent of these American farmers that are barely holding on, with some facing imminent foreclosure. Should this occur, the impact in the value of farmland and machinery and equipment will be substantial; some rural communities will not survive; many of the Nation's 4,300 banks will surely fail.

Two-thirds of the Nation's full service banks are in communities of less than 25,000 people. In fact, half of these banks are in towns with fewer than 5,000 residents. According to the latest estimates, nearly 60 percent of these community banks list agriculture as the single most important source of income for their communities.

Agriculture bankers recognize the problems are both short term and long term and would like to have a part in the policy decisionmaking for three reasons:

No. 1, agriculture banks are an integral part of rural communities and we must attempt to provide the skills and economic climate in which farmers, businessmen and related customers can survive and prosper.

No. 2, rural communities as we know them today will not survive without a strong agriculture base.

No. 3, banks cannot survive and prosper unless communities survive and communities cannot survive unless banks survive.

Agriculture banks are sensitive to the immediate needs of the agriculture borrower and for those who have a chance for survival are willing to write-down interest rates, adjusted down by an amount which results in a positive cash flow to the customer, in exchange for a 90-percent FmHA guaranty. In addition to this sacrifice and heartaches which will result in the writing down of interest rates, banks would be willing to share in the financial burdens of agriculture by partially funding this program in the form of payment of a fee of 1 percent of the guaranteed amount.

Small country banks prefer an interest write-down in lieu of a long principal write-off, because a write-off would have to be charged against the bank's capital accounts. If write-offs of principal capital were large enough, they could reduce a bank's capital below the capital adequacy ratios acceptable to bank regulators. Agriculture banks are particularly sensitive to bank examinations at present because many small banks are being forced to sign cease and desist orders and other enforcement agreements that place onerous burdens on the banks and their management until capital positions are returned to normal levels. Banks simply cannot give consideration to a large number of write-offs because such action would impair capital.

The proposal, as outlined, is not a solution to the farmers' problem, but only temporary relief. I have not addressed the all important long-term problem, but conditions will continue to worsen for all farmers until they receive a fair price for their product.

I might add that I understand that there is in process right now a write-down program that should be announced soon for banks willing to participate, and this would also include working together with FmHA; and banks must have an awareness of it; it must be publicized for them to know what they can do for their farm customer, because it means so much.

Thank you. [Applause.]

Senator **Boren**. Thank you very much, Jim.

Oris. Oris Taylor of Chandler PCA.

STATEMENT OF ORIS O. TAYLOR, GUTHRIE, OK

Mr. **Taylor**. I'd rather be known as a farmer right south of Guthrie.[1] I would like to give a little brief history on production credit and as someone has reminded me, this is similar to a credit union—the production credit is the farm part of your credit union like your Tinker Credit Union and teachers unions and all those credit unions? It was started in 1934 with bonds from the Federal Government after the banks and so forth went broke and farmers had no source of credit. My father was one of the early people that went over after he had buried the cows that had been shot.

We went along and paid off the bonds, I'm saying production credit, in 1959, December 31; and at this time, we have become eligible to pay income tax on the profits we made, if you want to call it that.

In 1968 through the farm bill we were pretty much removed from all of the authority so far as your local boards and so forth is concerned in the production credit. So we have locally very little control over it now. But in the years of 1981, 1982, and 1983, the 9th region, which is Kansas, New Mexico, Colorado, and Oklahoma, the PCA's, the local PCA's paid $8,172,072 of income tax which kept us from developing a capital and a reserve that we could use to offset the losses that we are having in farming. Now, in Oklahoma in that same period we paid a little over $2 million in taxes.

I feel like we have been criticized by other people that farmers were getting too much of a break. Farmers should have the same break on our credit as the people in other professions have. I feel that, as the two bankers here beside me do, credit is the most important part of any farming operation and I know what they are telling us is truth so far as the number of people that are out there in debt trouble. I have very little to say other than that.

I have given you a written brief of my testimony. One thing additonally I have in mind is that possibly the principal on land payments, especially our—Federal Land Bank and some of your Farmers Home Administration should be put on the principal at the end of the note and not have to come up with payment of principal this year. I know in our organization, it's on operational capital and many times the difference of whether or not we can float that man in whether or not he has to make that big payment on principal and interest this year.

I think another place where farmers don't have the opportunity that other people have is in the capital that they develop. It recently came to my attention that you said doctors or lawyers or other people can develop a retirement program and invest in land and at the time they sell that land they can roll it over and put it in something else. I feel that the farmers should be able to sell their land, roll it over and put it in bonds and so forth and not have to pay capital on that until the time that they liquidate those bonds out.

Thank you very much.

Senator **Boren**. Good points and good suggestions. Let me ask quickly, Senator Nickles, questions?

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[1] See p. 180 for the prepared statement of Mr. Taylor.

Senator **Nickles**. This will be to Bill or to Jim. Both of you had mentioned getting Bill's attention in this matter. Both of you in your statement mentioned the debt asset ratio and, Bill, in your comment you mentioned national figures. How are those ratios in Oklahoma?

Mr. **Crawford**. Senator Nickles, this is my opinion. I think they are higher in Oklahama than they are nationally.

Senator **Nickles**. You mean our debt in relationship to our assets is higher in Oklahoma than it is nation wide?

Mr. **Crawford**. Yes, sir, that's my personal opinion.

Senator **Nickles**. Has OBA or independent bankers done any homework on that?

Mr. **Crawford**. We are in the process and should have those figures for you soon.

Senator **Nickles**. Also, Bill, you have several good statistics on that, and I would certainly appreciate a copy of your statement if you have it available.

Jim, just one follow-up question. You mentioned the credit plan. Do you remember it originally came out requiring the write-down of principal and it has been modified, this last week as a matter of fact, to allow for write-down of interest rates. Do you think that is helpful?

Mr. **Eatherly**. Yes, Senator Nickels, it would be, because the small agriculture banks would impair their capital when forced to write loan principal off. And right now there is a strong supervision of agriculture banks because of the plight of the farmer and the condition of ag loans. But by writing down the interest itself, then it would serve the same purpose without impairing the bank's capital. It could be necessary to reduce a rate from 13 percent down to 7 or 8 percent or whatever it takes to cash flow the loan.

Senator **Nickels**. Have the regulators come by and audited the agriculture banks been too stringent as far as trying to say, yes, you have to write these loans off? Are they making the bankers tighten up while they would rather give the farmer a little more room?

Mr. **Eatherly**. I think they are fair, but I think that what they have to do—the fairness does not keep them—prevent them from writing the loans down. That's the first thing they do in an ag bank, of course, they go to your loan case and they look at your ag loans; and when a loan won't cash flow, they pretty much have to classify it as being substandard if it shows that there is no income to pay the loan.

But we talk about forebearance. If it looks like there is no loss to the bank, then they will be more lenient. I think at times they have. I think at times they look at bank management and how good the bank management is and they are directed by that.

Mr. **Watkins**. I basically don't have a question. I did some real quick calculating, Bill, on the figures. I know people in Washington like to brag about making policies and bringing some inflation down, but on the deflation factor that you talked about, Senator, I did a quick calculation that basically since 1981, the farmers have had to absorb and swallow approximately 30 percent in inflation. If our inflation is 4, that means a calculation of about 26 percent in deflation factor or if you want to reverse it, that is what you absorbed in kind of an inflationary time situation, but it's in a deflationary calculation where in 5 years ago the difference was only about 4 percent, so you can quickly calculate where we are in that cash flow jam that you're talking about.

I want to apologize to some of you in the credit situation on some of the policies sent down by the Farmers Home Administration last year where it said you had to absorb 10 percent if you were going to utilize that $650 million, which, by the way, that $650 million was embargoed by Block a year earlier and we finally kept fighting for it and got it released and they said that—the restrictions banks do absorb 10 percent of principal and guarantee a cash flow. I don't know—that's why it didn't work.

We are now moving toward using that dollar to have the buy-down and if I detected correctly, the buy-down of the interest rate would probably be more workable and I have calculated where we can make about 25 times more loans on the same amount of money. Is that what you're——

Mr. EATHERLY. We could without impairing bank capital and what banks want to do is not impair their capital. If we have to write the loans down the 10 percent off the principal to get a guarantee on it, we might as well keep the loan in the bank because the writeoff of principal would probably make the loan a good one.

I would like to say something, Senators and Congressmen, if I could. Banks are really concerned about this crisis today. It impacts the rural communities, the agribusiness in the area and if we permit a large number of farmers to go under right now, it can have a domino effect and a chain reaction; it can pull down the next plateau of farmers who are not feeling it right now; and this is the vital concern to not only Oklahoma but all of America. It's a severe and serious problem. [Applause.]

Senator BOREN. You're so right about that and, of course, when we go back and again look at the history of the Great Depression in this country, it was first fueled by the collapse of farm values after there was not the farm income to service it, and that's what then began to collapse the banks, the main streets, until it reached all across the country and shutdown the steel mills and everything else. People seem to have forgotten about that, tragically, in the country.

Let me ask a real quick question and try to move along. The write-down has been apparently cured in this latest thing although there is still only the same $650 million. I have two or three questions here because I'm trying to put together an additional credit package to the one announced, which isn't yet sufficient. If you had an attractive program, one that you would really want to participate in, I assume that the $650 million will not begin to service the kind of demand we are talking about.

I notice that the independent bankers testified that $3 billion would be the minimum figure that would begin to service the need and I wonder if you have any comment on that; and, second, do you remember the savings and loans when they were having difficulty and they had the Garn-St Germain bill which allowed them flexibility to deal with losses on loans that went bad so they would not impair the bank's capital structure? What happens when the capital falls below a certain level? They close the bank and then the bank has to come up to the additional level or it fails, in essence. So that's the reason for the conversation about the capital structure.

Would those be helpful provisions for agricultural banks? I'm told also that when you write down the amount of interest, you're required to write down and compare the principal with the loan guaranty. The administration's proposal is only approximately 65 pecent of the existing amount of the loan and I gather that still might not be quite attractive enough for it to be helpful. If we get that up another 10 or 15 percent, do you have comments on how we can improve the latest proposal they made?

Mr. **Crawford**. No, sir, I don't Senator Boren, but the $600 million is a mere drop in the bucket compared to the overall total and as you well know a small rural bank's capital is impaired in western Oklahoma, particularly, in the towns where banks have failed, it's a catastrophic effect to the community.

Senator **Boren**. All the other farmers and everyone else suffers because they have to make new arrangements then.

Mr. **Crawford**. Oklahoma particularly—I'm more well versed in western Oklahoma. People say, "Why don't you diversify your loan portfolio?" The only loans we can make are to farmers. That's all we have and they are our lifeblood. They are the lifeblood to survive. The family basic farm is the flat survival of the State of Oklahoma in my opinion.

Senator **Boren**. Changing the amount is necessary, then, if we are going to have any hope of averting a disaster. We talk about land values falling 10 percent if we lose 3 percent of the farmers. If we lose 13 percent, we can just see what's going to happen. Would a 10 percent write-down with a 10-year capaitalization of losses help the capital structure?

Mr. **Crawford**. Certainly, in my opinion, it would.

Mr. **Eatherly**. Yes, it would. You're talking about something similar to the——

Senator **Boren**. Garn-St Germain.

Mr. **Eatherly** [continuing]. So-called net worth certificate of savings and loan and imaginary capital.

Senator **Boren**. That's right.

Mr. **Eatherly**. Yes, that would be a big help.

What we're faced with, too, as you gentlemen know, this is a temporary thing with 10 percent of the farmers unless we can get income for the remaining farmers, maybe the 10 percent is going to grow to 12 or 15. It's——

Senator **Boren**. That's exactly right. I've got to be careful that we don't open this up to other questions, but one man stood up a minute ago and wanted to ask a question.

From the Floor. I'd like to ask these bankers if you're financing a cattleman in February and his calves are just on the ground and they weigh 80 pounds and you've gone as far as with him as you can go and you don't have whatever it takes to foreclose him, would you, as a banker, assign me, in the feed business, a prior lien on those cattle if I take them from 80 pounders to 500 pounders before you foreclose in November?

Senator **Boren**. You heard that question, I think most of you around him heard. That's a creative financing approach.

Mr. **Crawford**. If you're asking this banker, I'd certainly let you feed them.

From the Floor. That's what——

Mr. **Crawford**. Yes, sir, I think you will find, Senator Boren, most Oklahoma bankers working very cooperatively with the farmer. I think we realize how important he is and most bankers I know work hand in glove with the farmer.

Senator **Boren**. Let me ask one thing and we will go to the next panel. Let me ask the association, State association or the PCA's or the land bank and community bankers if you would, during the next week or so, put your heads together, look at the details of the administration's latest proposal, too, and give me any other concrete suggestions in addition to increasing the amount of the pool and the capital structure question, which may be a longer write-off period of the losses to that you can carry the farmers longer. That would be helpful because we're going to try next week to really put something together and, as I've said, we threatened to tie up the Senate until we get something on the schedule.

I think it's appropriate that these bankers get applauded. We all need them right now. [Applause.]

I appreciate their interest. I want to remind people to fill out your cards that you have and leave them with us at the table before you leave today so we can keep you on the mailing list. Let me ask again if people will summarize their statements when you come forward. Robert Ross, Webbers Falls, Soybean Producers Association: Ellis Freeny, representing Cattleman's Association, and Dutch Miller of the Pork Producers, when you come up, I'd like to ask you to please summarize if you can. Instead of reading the statements if you can hit the high points for us, we will put everything in the record. We want to let everyone have a chance. There are a few more people that have indicated they want to talk and we want to give them a chance to do that.

Ellis Freeny, we will let you start and if you would talk into the microphone so they can hear you in the back.

STATEMENT OF ELLIS FREENY, REPRESENTING OKLAHOMA CATTLEMEN'S ASSOCIATION

Mr. **Freeny**. Thank you, Mr. Chairman. I've eliminated a considerable amount of my statement.[1] We appreciate the opportunity to be here. The stress in the cattle industry is caused by declining land values, high interest rates, high debt service cost, and a negative cash flow. We recommend that Federal spending be reduced, No. 1; that the national deficit be reduced which would hopefully lower interest rates; and that Congress take no action that would impact on the Nation's beef cattle industry. There are no overnight solutions to agricultural problems.

The next two are not major problems but would help improve conditions in our industry. We would recommend that you continue your support and effort for the Farm Products Buyers Protection Act. It is simply unfair to hold a cattle producer or cattle feeder liable for double payment when he innocently and unsuspectingly purchases mortgaged livestock or grain, especially when these commodities may be from several States away.

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[1] See p. 182 for the prepared statement of Mr. Freeny.

Several States have amended or repealed the agricultural exemption under the Uniform Commercial Code. It is no longer a State problem but a national problem. The Farmers Home Administration or any other lender can make a livestock loan without regard to its soundness because they know they have the entire livestock purchasing industry backing the loan. The lenders should be responsible for the maintenance and collection of their loans.

Simply put, it is not practical for liens to be checked, particularly in other States. Livestock is a product of interstate commerce. Therefore, a uniform law should be adopted applicable to all States. State legislation will not protect buyers of livestock from the Federal Government or FmHA with a 6-year statute of limitation on conversion cases.

No. 2, continue your sponsorship of Senate bill 593, which will provide for interstate shipment of State-inspected meat. Current law requires that State-inspected meat be equal to or exceed Federal standards for wholesomeness, cleanliness, and freedom from residues. However, the same law prohibits the sale of State-inspected meat products to nearby markets and across State lines.

We believe these changes will enhance the value of Oklahoma livestock by expanding and adding efficiency to the distribution system.

Last, we'd like to ask you to help preserve our individual choice in management of land, water, and other resources and provide us an opportunity to compete in foreign markets.

Thank you very much.

Senator **Boren**. Ellis mentioned the State legislature and some action proposed there and I do know that Senator Bob Miller and Representative Bill Widener, our chairmen of the House and Senate Agriculture Committees of our State legislature, are here. Could you wave your hands? We appreciate the chairmen of our two agriculture committees being here from the State legislature very much.

Robert Ross you are next.

STATEMENT OF ROBERT ROSS, REPRESENTING THE OKLAHOMA SOYBEAN ASSOCIATION

Mr. Ross. Thank you, Senator.[1] I'm Robert Ross, representing the Oklahoma Soybean Association here today, and you noted earlier that the American taxpayer pays 16 percent of his income for food. I hope—I'm sure you realize that the average American also eats 50 percent of his meals in a restaurant. That's included in that 16 percent. So, we are really getting a real bargain when we go to eat, but we are certainly getting a bad bargain when we go to sell something.

Most soybean growers believe those terrible embargos were the beginning of the farmers problems. Now the PIK Program that gets a lot of publicity was very costly to the American taxpayer. The program was mislabeled, however; it should have been called

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[1] See p. 183 for the prepared statement of Mr. Ross.

"Payment-for-problems-created-by-embargoes", which killed our export markets and created major competitors for those markets. High interest rates, the high valued dollar and lingering result of the embargos have cost the American farmer much more than the farm program cost the American taxpayer. Those problems, as you indicated earlier, are not the creation of the farmers, but a creation of our own Government policymakers.

Now, generally the Oklahoma Soybean Association favors a true, free market. Now, you notice I said true and free and some people say that's impossible, where price is determined by supply and demand. We'd like to try it where it's true and free. We continue to favor a loan based on 75 percent of the average price of the last 5 marketing years dropping the high and low years and for soybeans we still don't want any allotments.

When we say "free market", we mean a market free of Government hinderances; no embargoes or threats of embargoes of food commodities; no requirements to use overpriced cargo preference shipping; no U.S.-financed competition for foreign countries, either directly or indirectly or through U.S. financed World Bank; no subsidies for us, no subsides for our competitors—speaking for soybean growers. If our competition insists on subsidizing their exports, then our Government should offer us protection by equalizing the matter.

The Oklahoma Soybean Association favors a balanced budget. High interest rates and the overvalued dollar are the major causes of the farm financial crisis today. The Federal Government should live within its income and remove itself from competing for money on the open market. The overvalued dollar has made our unprofitable commodities too expensive to compete in foreign markets, costing us foreign markets and many jobs in the United States.

Now, the Government should assume some responsibilities. Agriculture research and education benefits all citizens and should be continued and even increased. Agriculture research benefits the consumer far more than the producer. Approximately 10 years of benefits are derived by consumers whereas approximately 2 years of benefits are derived for the farmer himself. No. 2, protect U.S. agricultural producers by guaranteeing free trade, as I mentioned earlier. No. 3, in all cases agricultural commodities imported into this country should be required to meet the same standards of health that domestic producers must meet.

Agricultural exports are one of the few pluses in our balance of trade position. Therefore, for the benefit of all U.S. citizens the Government should increase its financing and encouragement in the development of markets for foreign agricultural export.

Now, also we need to work to remove domestic and international trade barriers. It's a pretty good job. Now, since it is in the interest of all U.S. citizens to save and protect our soil and since the lack of profit in agriculture will not allow the farmer to pay for all the soil conservation practices needed, the Government needs to continue in its financial assistance in this area.

When we get to Federal loans, many times we feel that loans are made to people who don't have a chance of making it anyway. When this kind of a situation arises, it actually hurts those who do have a chance to make it. It seems to me like we need to be more selective in loaning Federal money.

Thank you.

Senator **Boren**. Thank you very much.

Dutch Miller.

STATEMENT OF DUTCH MILLER, REPRESENTING OKLAHOMA PORK COMMISSION

Mr. **Miller**. Dutch Miller with the Oklahoma Pork Commission.[1]

In Oklahoma, 5 years ago, we marketed approximately 500,000 hogs. In 1984, production was down to approximately 250,000 hogs. And probably all the things that everybody has spoken about before has caused this to happen so we won't go into detail on all these things except the fact that high interest rates, the deficit, they both need to be reduced. Government spending, included dollars.

The high dollar value, the dollar has caused the foreign countries to invade our domestic markets. The pork producers are most concerned, of course, with the Canadian imports of live and frozen pork. It has been estimated at the present time that approximately $10 per head is what the pork producer is losing because of the Canadian imports. If the fair trade laws were enforced properly, we would not have the current situation of Canadian imports.

But anyhow, the trade embargoes is another thing. We're opposed to trade embargoes or threat of trade embargoes. We would like to see the expansion and continuation of research to help lower the cost of production and also enhance consumption of pork. Another thing port producers are concerned about is the Government messages to consumers about nutrition. We think that these ought to be not pitting one Government agency against the other with the information. And, also, we are opposed to any national sale or value added tax that would have any impact upon the retail sale price of pork and, therefore, we'd like to see an exemption of all food stuffs, in any subsequent tax program, at the Federal level.

Also, we'd like to see support of the long-term credit programs for agriculture and I guess the main thing we'd like to see Congress thoroughly study all commodity programs and make decisions on those programs based on the welfare of all agriculture commodities and not just the strong, well-financed commodities.

Thank you.

Senator **Boren**. Thank you very much. Thank you, all three of you.

We are going to ask Leo Hopper, of Mutual, chairman of Agriculture Movement; Jimmie Jarrell, president of the Farmers Union; and Jim Lockett of the Farm Bureau if they would come up. We are going to have a statement filed for Jimmie Jarrell. Do you want to give any of it at all or summarize it for us? I'm going to ask Leo Hopper if he would start.

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[1] See p. 184 for the prepared statement of Mr. Miller.

STATEMENT OF LEO HOPPER, AMERICAN AGRICULTURE MOVEMENT

Mr. HOPPER. Thank you distinguished panel and ladies and gentlemen, we have sat here today and listened to some real good testimony. we have heard the problems in agriculture emphasized and reemphasized. We have heard the problems with our finances emphasized, but, gentlemen, I believe today the biggest stimulation to our economy for all the farmers and all the little businesses would be plain and simply a price at the marketplace.

I personally don't want to borrow any more money. We had to opportunity to tell our former Senator Bellmon in Washington almost 6 years ago that we didn't want to borrow any money. We want to make some money. We are not talking about a novelty item here today. We are talking about food and I certainly hope it's not come to the point where it's going to be a luxury. With that basic thing in mind, it looks like that producing the basic commodity right next to the air we breathe and the water we drink, that it would command some attention and as long as we ignore the importance of our most valuable resource, our renewable resources, this country is never going to balance any budget. I really don't believe.

If we don't balance the budget, we are not going to get interest rates down, we are not going to get rid of the deficit spending. So I think it's not only our duty, it's our obligation some how, with you gentlemen's help that we establish a price that at least reflects the cost of production at the marketplace, stop those Government checks from coming out of there that our consumers and our city cousins are using against us.

Coupled with that, we need a mandatory supply and management. If this situation we are seeing today is really over-production, then we need to manage that production, but I fail to see the sin in having a bountiful supply of wholesome, nutritious food, especially when we turn the TV on and see the starvation in the world today. We don't have to turn it on, it's right here amongst us. We have too many people going to bed at night without all they should have to eat right here in this very city, all because they are not able to buy, all because for some reason the leadership of our country and the policy they have followed for the last 20 to 30 years renders us incapable of keeping the people busy enough to generate enough finances to buy those basic needs it takes to support their families. I sincerely believe that if we could somehow get the profit back in agriculture, that the deficits will disappear, interest rates will drop, and people will go back to work and we'll see prosperity here again.

I hope the people here today realize that if you look to the north of us and see the rebellion that's taking place up there, 17,000 people congregating in the Capital of Minnesota a short time ago, 500 to 1,000 in various other areas, 400 to 500 farmers protesting at the Board of Trade. I would like people to understand that we are not out to destroy the Board of Trade. We simply feel like that the speculative short selling on the Board is detrimental to us as producers. And, another thing, they do not have my permission to trade my commodities.

So, in closing, I would like to remind the people here today that it's far past time that we quit sitting around at home and thinking that somebody should do something and realize that you are somebody and we need desperately to help these gentlemen with us here today that has got such a battle in Washington. With a 9 to 1 ratio against them, it's next to impossible for them to scratch enough backs to get anybody to help them with any reasonable agricultural legislation. So I urge you to support these gentlemen. Use that telephone and write those cards and letters. Let them know you're out there. Let them know that you are somebody and you want this drastic situation changed and changed immediately to save this great country that we have. As desperate as it seems, it's still the greatest country on the face of the earth. We have got to realize that and we somehow have got to renew that blessing that we have; to establish a possibility that our grandchildren and our great grandchildren might somehow enjoy some of the great things that we have been blessed with.

So, in closing, I'd like to say thank you gentlemen and anyway that the American Agriculture Movement of Oklahoma can help, we would be glad to try.

Senator **Boren**. Thank you very much, Leo.

Thanks very much. J.D. Fleming told me when he came up a minute ago that he represented Jimmie Jarrell, the president of the Farmers Union. J.D. has worked with all of us in the State government for many years. We are glad to have you.

Mr. **Fleming**. Thank you, Senator. We are having our State convention at the moment.

Senator **Boren**. Right.

Mr. **Fleming**. We also have a new president, Jack Kelsey, from Wanoka and the statement I filed will be for him on behalf of the Farmers Union.[1] We cannot adequately appreciate and tell you how much we appreciate you holding these hearings and the hearings that have been held by Senator Nickles. I attended one in Chandler last week, one of the most informative right down-to-earth sessions I ever sat in on. I would also like you to know that we recognize that our delegations from Oklahoma are fighting the biggest battles that will be fought this year in Washington. We are concerned today with agriculture. You are concerned every day also with energy, and those are two that are in the greatest difficulty at the moment.

Senator **Boren**. They are hitting us both on the farm and the energy fronts this year with the tax proposals in energy and agriculture. You're right.

STATEMENT OF J.D. FLEMING, REPRESENTING FARMERS UNION

Mr. **Fleming**. Many of us have been here and have been around long enough to have known many of our Senators and Congressmen. They have been outstanding, but I believe that the delegation we have now is adequate to carry on this representation of this State to a tremendous degree and we do appreciate you.

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[1] See p. 185 for the prepared statement of Mr. Kelsey.

I heard on the television this morning, I thought, well, all I'll do is say, we just hope you can carry out with that program that you outlined there this morning. Now, also, you have mentioned today about 10 percent being on the verge of bankruptcy and we have heard the bankers give some very startling statistics.

What I'm here to say is that if the program that's has been proposed is enacted, it's not that 10 percent that will go under immediately, and as they pointed out, too, there will be a domino effect. I say there will be no less than half of the family farmers in this country will go under. It is almost inevitable under the overwhelming difficulties that they face. So, what will we do about it? Our suggestion and our recommendation is that for the farm program that it at least cover the cost of production by whatever loan level and target price might be set and that that be coupled with a supply management program until we can recapture some of our foreign markets.

You pointed out very adequately this morning that the farmer is not to blame for this situation that we are in. I'd also like to bring back to your attention that during the seventies there was no limit to the amount of production that the farmer was called on to make and during the seventies our exports were climbing 8 percent a year; and year after year, the farmers met that demand; and I doubt if come January 1, 1980 that there were ever any more foreign sales on the books of American goods that existed at that time and then that embargo hit and we have been going down hill ever since.

And then we combine—that has been mentioned time and again this morning about our high priced dollar, over-valued dollar, and the fact that that thing not only blocks our exports, in fact, it is a kind of an embargo, the high dollar we have; and, not only that, it opens the flood gates for imports to where the other day we read it was cheaper to import wheat from Argentina than it was to grow our own wheat here. How ridiculous. Now, the farmer didn't have a thing in the world to do with either the embargoes or this over-valued dollar. He is just the victim of it.

Senator Boren. The Argentine currency fell 86 percent against the dollar last year. When they buy the peso and then buy Argentine wheat, they are buying at 50 cents on the dollar. There is not anybody in the world that can compete against that. Nobody can.

Mr. Fleming. There has been some simple talk this morning on the panel on the farm credit. From where we come from, at least on these delinquent loans, we would hope that they would be guaranteed at no less than 95 percent of that. Also, on our Federal farm credit system, including the Production Credit and the Federal Land Bank, we would like for those bonds to be guaranteed because as soon as we have a move on foreclosure, this domino effect is going to take place.

Then one last thought, that whatever measures are worked out to help this situation, that they be confined to the family farmer. And, this morning, what a wonderful statement that I thought you made that we have had commodity programs. Let's have a farm family program. Again we appreciate you all being here.

Senator Boren. Thank you very much. Thank you.

Jim Lockett with Farm Bureau. I'm glad you're here today.

STATEMENT OF JIM LOCKETT, REPRESENTING OKLAHOMA FARM BUREAU

Mr. LOCKETT. Thank you, Senator Boren, members of the committee. I welcome the opportunity to bring to the committee the views of the Oklahoma Farm Bureau on the coming farm bill.

Our members have been working for over a year to reach a concensus of what they want in a farm bill, but the overriding thought that came through loud and clear during all these deliberations was that before any farm bill could succeed, the Congress must balance the budget and cut spending.

Possibly the biggest problem that most commercial farmers and ranchers have right now is the high cost of interest. Not until Congress signals the money markets that they are serious about reducing the deficit significantly will interest rates come down. But with respect to the farm bill itself, we have been functioning as a warehouse of the world and sometimes we have become the supplier of last resort. We are the only Nation that really tries to cut back on production and when we cut back, our competitors expand.

The Farm Bureau has always supported the price support loan mechanism as a tool for orderly marketing, but price supports cannot function as they are supposed to if the level is placed artificially high so that it is not only the floor but also the ceiling.

Congress must write the farm bill to allow price supports to function as originally intended. Some of the provisions we would like to see in the farm bill with regard to wheat, feed grains, soybeans, rice, and cotton, we would like price supports geared to the market, much like soybeans are today. With the price supports set by formulas at something less than market price. We recommend target prices and deficiency payments be used to supplement farm income for wheat, feed grains, cotton, and rice producers in the time needed to make the transition to an era when supplies are more in line with demand. We believe that the farmer held reserves should be terminated and replaced with a more generous loan repayment program. We also believe that when wheat and feed grain stocks exceed 4 percent of the annual world utilization a voluntary land diversion program should be mandated and participation would be required to be eligible for program benefits. Also, when cotton stocks exceed 3½ million bales, a similar program should be required.

We will urge vigorous programs to increase exports, including the use of export credit, revolving funds and blended credit exempt from cargo preference.

Senator, these are just a few of the things we'd like to see in the farm bill and I've covered many more in written testimony that I've submitted. Senator, our goal is to improve net farm income. We know this is a common goal and we know there are varying ideas of the best way to achieve it. We have done the best job we know how to arrive at a concensus of our members—not all Farm Bureau members agree with the stand our organization takes on every issue, but the foregoing represents the majority view within the Farm Bureau.

There is virtually unanimous agreement among us that a balanced budget and reduced Federal spending would in time solve many of the problems we are now facing. Thank you very much.

Senator BOREN. Thank you very much, Jim. Thank you all very much.

I'm going to ask Gene Sawyer of Carnegie to come forward now, as well as Dr. Charles Browning, and Don Schieber of Kildare, representing OSU Ag Leadership Alumni, Doctor Browning represents OSU on ag research and Gene Sawyer is the president of Oklahoma Soil Conservation District.

One of the things that has concerned us a great deal is that the administration's budget proposal, the conservation program would be cut by about two-thirds over the next 2 to 3 years, right when we are having a conservation crisis. The economic problems are bringing on the conservation problems. People have no choice. They are trying to produce all they can out of every acre. I think it's very important for us to think about it and see if there is any way we can tie in and improve cash flow with a long-term conservation program.

Gene, if you would begin.

STATEMENT OF GENE SAWYER, PRESIDENT, OKLAHOMA ASSOCIATION OF CONSERVATION DISTRICTS

Mr. SAWYER. Thank you, Mr. chairman, members of the panel. I am Gene Sawyer of Carnegie, OK, president of the Oklahoma Association of Conservation Districts.

As conservationists, our feelings toward our Federal Government right now are very well reflected by the words of the Kenny Rogers song, "You Picked A fine Time To Leave Me Lucille". With the agricultural economy in the worst shape in 50 years, the present administration, not only says, "We can't continue any type of support." They also say, "We don't care what happens to your soil and water resources." Not only will future generations have to pay for the terrible deficits, but will have to do so with gullied lands and dirty water.

The budget submitted by the President cuts two-thirds of the funds for the Soil Conservation Service. For 50 years the farmers and ranchers of our Nation have relied on SCS technicians to plan and layout terraces and waterways, to stake our farm ponds, to plan upstream flood control projects, assist with timberstand management and establish windbreaks and shelterbelts.

Now, it appears that the administration has taken the first step to shut down the Soil Conservation Service and the ASCS. The proposed budget leaves only enough money to fulfill the long-term contracts already made with the landowners. Mr. Chairman, even if all farm income for conservation were available to landowners and operators, without the Soil Conservation Service there would be no one available to provide the technical expertise necessary to carry it out.

Mr. Chairman, when my dad had to do farm work on Sunday, he always said, "The ox is in the ditch." Right now, as I look at the cut in funding for conservation, it's clear to me that "The ox is in the ditch," and that we have to do whatever it takes to get it out. I know that you appreciate our plight and as in the past, you've been as strong voice in support of conservation. Since so many people want to be heard today, I would like to submit some facts in writing about the need for Soil Conservation Service for use by your committee, and Kellye has that.[1] And I thank you for your time.

Senator **Boren**. Thank you very much, Gene.

STATEMENT OF DON SCHIEBER, OKLAHOMA AGRICULTURAL LEADERSHIP PROGRAM

Mr. **Schieber**. Gentleman of the committee, I'm Don Schieber of Kildare, OK. I'm married and I have four daughters and farm 1,700 acres of wheat. I have come here as president of the alumni of the first class of Oklahoma Agricultural Leadership Program. As you may know, the OALP began 2 years ago because there was a need to develop leadership skills among our agricultural people. Our goal as alumni is not to begin another farm organization because each of us already belong to farm organizations and we wish to work in our own group, whether it's a general farm organization or a commodity group. We have developed new friends from all across Oklahoma in different types of agriculture. I have become more aware of the problems of the dairy farmer in southeastern Oklahoma and he has become more aware of the problems of the wheat farmer in northwest Oklahoma. As the years go by, this relationship can only help agriculture as these groups are now in 22 States.

Since I represent such a cross-section of farm organization and there may be differences of opinions, I can only give you my opinion today which may not reflect the feelings of some of the other members of the OALP. I don't have to tell you we have trouble in agriculture or you wouldn't be here today. This is the biggest ballgame in town, agriculture is being shut out and we are in the fourth quarter. We are the players and you are the coaches. What do you want us to do now? Do we grind it out a little at a time or do we throw the long one? We are running out of time. The crowd keeps getting larger and larger. We keep losing players on every play. If we lose this game, the whole crowd is the loser. In a lot of places if the team loses, it's the coaches fault and he's the one that's replaced. We can't trade too many players on our team——

Senator **Boren**. You better turn down the mike on that one.

Mr. **Schieber**. I might say we have the best coaches in Oklahoma of any State. [Applause.]

We can't trade too many players on our team——

Senator **Boren**. You can take another 10 minutes now if you want.

Mr. **Schieber** [continuing]. Because where are you going to find a replacement that wants to be kicked around like we are?

We have a problem. What is it? Is it financial, overproduction, poor management, embargoes, lack of exports, strong dollar, deficit spending, or poor Government agricultural policy? I believe it may be a combination of any or all of these factors.

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[1] See p. 187 for the fact sheets presented by Mr. Sawyer.

How did we get in this situation? I think it started many years ago. But since the 1973–74 marketing years, things seemed to start going backwards. As you may recall, wheat was about $3 to $3.25 a bushel at that time and a new tractor was $7,000 to $8,000, a new combine was $15,000 to $17,000, and diesel fuel was about 30 cents a gallon. Since then wheat cycled up to nearly $6. Secretary Butz told us to plant fence row to fence row because we had a market. Every one heard the cry that bread was going to be a dollar a loaf. What happened? Wheat prices fell. Tractors have gone up 500 percent, combines nearly the same. Bread is still nearly a dollar a loaf and wheat is about $3.25 to $3.40. Interest rates are still about 14 percent.

Under these conditions I can't advise a young man coming out of school to get into farming. With all the gloomy forecasts floating around these days, why would anyone even consider agriculture? The average age of the farmer continues to rise and is about 50 years. Young people can't learn about agriculture in school. Practical experience and genuine guidance are necessary.

What does the future hold for us as young agriculturalists? Will we be around 2 or 3 years from now to help agriculture or will we be cut from the team?

I think we have a twofold problem in agriculture. One is short term that requires immediate attention and the other is long term and requires extreme good judgment and thought to be effective for several years.

On the immediate problem, many, many farmers have told me they thought they could make it if they didn't have to pay such high interest rates. As you know, the interest—the Government has interest buy-down programs for foreign countries. I would urge a similar program immediately with no strings attached, such as requiring lenders to forgive portions of their earnings. I would urge that this program purchase interest rates back to 7 percent on existing debt. It has been estimated that a 7-percent interest rate would mean $8 billion added to the agriculture economy and would help the ones that need it most.

We have already been allowed to graze our wheat set-aside until June 1, but we can't bale these acres. What the heck is the difference? [Applause.]

Senator **Boren**. I sure agree with you about that.

Mr. **Schieber**. We are tired of having to fight for trivial things such as this because we need the hay. Hay prices in Oklahoma and Kansas and Texas is the highest they have ever been. I think the Secretary of Agriculture may have discretionary powers that may belong in other places. The long-term problem requires maybe additional or different approaches. We must decide what to do with the surpluses of grains. What about reserve grain? What will we do about target prices and lower rates? Will we raise, lower or eliminate them? Will we have voluntary or mandatory programs? Will there be payment limitations? What about exports? Will there even be a program? From what I've heard from USDA and the OMB so far our best shot may be an extension of the current laws as it pertains to wheat.

In closing, I appreciate the opportunity to appear before you today and I would be happy to answer any questions that you have.

Senator **Boren**. Thank you very much.

Congressman Watkins is going to have to leave for a meeting and, Dean, before you start, Congressman Watkins wants to say a word.

Mr. **Watkins**. I spent all my time in the dean's office over in OSU anyway. But, Dean, I do have a prior commitment at noon. I'm like you, a guest of Senator Boren, here and, Senator, I appreciate getting to come by and to listen and respond occasionally and I want to thank all the people for coming that's an example of all your concerns and I thank you so much and I hope you'll forgive me because I do have to go to a noon luncheon.

Senator **Boren**. Thank you very much.

Dean Browning, glad to have you.

STATEMENT OF C.B. BROWNING, DEAN, COLLEGE OF AGRICULTURE, OKLAHOMA STATE UNIVERSITY

Mr. **Browning**. Thank you, sir. I do appreciate the opportunity to be here today.

I am the Dean of the College of Agriculture, Oklahoma State University. Previously when I've been asked to testify before congressional committees or the legislature I have generally done this to talk about additional programs for agriculture research and education. That certainly would be appropriate today. Never before has the need been greater for research and education in agriculture. And, also, never before have our problems been greater in terms of the budget needed to do the job we are charged with.

Certainly I agree with what Representative English has said, that profit is the name of the game. Profit is where we have got to come out if we are going to solve this problem. There are two essential parts of profit. One is appropriate price and the other is effective and efficient production. We can't have efficient production without continued investments in research and education.

I was pleased that several individuals speaking here on behalf of producer groups have talked about the importance of research and education, but that's not what I'm here to talk about today. It is to speak in behalf of, not for, Oklahoma farmers and ranchers, because they have certainly done a sufficient job of speaking for themselves, but in behalf of these farmers and ranchers, because of the crisis that you've talked about and others have talked about that must be dealt with or we are going to change the face of the Nation and the face of our society forever. This is an emergency situation that cannot wait for the 1985 farm bill, as crucial as the 1985 farm bill is. We in the division of agriculture know the farmers and ranchers of Oklahoma and have worked with them in groups and on a 1-to-1 basis for years. Agriculture is a crucial situation. It's not getting any better. It continues to deteriorate. Net farm income was the lowest in 1983 for any time since the depression of the 1930's.

I won't go through all the statistics that I have here because many have been stated today, but I would like to at least state one statistic. Our research suggests that when a farmer or rancher reaches a 35-percent debt-to-asset ratio, he begins to have considerable difficulty generating enough cash flow to stay in business. At the present time the research also shows that 30 to 35 percent of Oklahoma farmers and ranchers have already reached this critical figure. At least one-third of the farmers and ranchers in this State are in serious financial trouble. That's not a nationwide statistic; that's for Oklahoma. The reflection of this fact is becoming more evident across this State. Smalltown banks are being stressed, some are failing. Implement dealers are closing up, fertilizer and chemical dealers are feeling the financial pinch. You might ask who will be next? All of Oklahoma will be. No one in rural Oklahoma, no one in downtown Oklahoma City or Tulsa will escape the consequences of a wholesale financial failure on the farm.

Everyone in Oklahoma knows about erosion. We learned a lot about it during the Dust Bowl. Erosion doesn't look like much to begin with—just a little gully here and there during a rain—a little blown out corner after a strong wind. But it never gets any better unless you do something about it.

That happened a lot in Oklahoma in the 1930's. But we learned to do something about it. We planted shelterbelts, we changed the way we plowed and planted. We did not repeal any of the laws of nature. Water still fell, wind still blew, but because we changed the way we worked with nature we survived. I am not here to suggest that we ought to repeal the laws of economics. I'm not here to suggest any drastic modification of our economic system. What I am here to suggest is that our agricultural strength—the greatest food system in the world—is eroding away right before our eyes. And this is happening in spite of relatively large Federal Government expenditures designed to help the American farmer and the American consumer. The industry has overexpanded. Some won't agree with that, but the industry has overexpanded in relationship to expected—and I might add promised worldwide markets. Both the overexpansion and the significant depression of export markets can in large part be traced to ineffective Government policies, not to inefficient farmers and ranchers.

The massive Federal deficits, the high real interest rate, the high value of the dollar in international markets and the inflated prices of everything that goes into producing food and fiber again are nonfarmer and nonrancher caused problems. It would seem not only inappropriate but unjust for the Federal Government at this point to want to wash their hands of our farm problem.

We must build some economic shelterbelts to keep our efficient farmers and ranchers in business until our country's economic health has a chance to improve. I for one believe that a strong American agriculture effectively competing in the world market place is essential to a healthy U.S. economy.

We do appreciate your concern. We appreciate your being here in the State to listen to what agriculture has to say and I appreciate this opportunity to speak in behalf of the farmers and ranchers of that State.

Senator **Boren**. Thank you very much, and let me say that I know you could have talked about ag research and things that immediately impact Oklahoma State University, but I doubly appreciate your coming today to speak on behalf of the farmers. I appreciate very much your doing that on behalf of OSU.

Senator Nickles is going to introduce the next panel and I will be right back. We said we would end the meeting at noon, but we won't. We will stay here a while longer, because there are some others that want to have a chance. So don't worry, we will stay with you and give people a chance to speak.

Senator NICKLES. Dean Browning, one question. You mentioned the statistic I was looking for from the bankers. Did you mention that 35 percent of all Oklahoma farmers had a debt-asset ratio after 35 percent or greater.

Mr. BROWNING. That's correct. Our research indicates it's at least 30 to 35 percent debt-asset ratio.

Senator NICKLES. Has that increased dramatically in the last 2 years?

Mr. BROWNING. It has increased. In fact, the average debt-asset ratio went from 16 percent in 1980 to above 22 percent in 1984. Now, that's the average for farmers and ranchers of this State.

Senator NICKLES. Do you have the 1984 figures yet?

Mr. BROWNING. No.

Senator NICKLES. When you get those, I would be very interested. You might get those before I do and if you would send those to all our panelists, we would appreciate it.

Gene Schieber, let me mention one comment on your input to us concerning soil conservation. Many of us have contacted the administration and I expect that you will see some changes made in the soil conservation budget.

We are well aware—and many of your people have been very helpful to me—that our State has probably benefited more than any other State in the Nation as far as population and land size through the soil conservation efforts. It has been an asset to us and one that we want to see continued. So thank you very much for your comments.

Our next and final panel: James Ross of Minco, representing the Oklahoma Honey Producers; Laverne Johnson of Fort Cobb, representing the Oklahoma Peanut Growers; and Clem Ward of OSU, representing the Oklahoma Pecan Growers.

Mr. JOHNSON. Mr. Chairman, I'm Laverne Johnson of Fort Cobb, OK. I've got about 10 minutes here, but I'm going to cut it down to about half that.

Senator NICKLES. Thank you.

STATEMENT OF LAVERNE JOHNSON, PRESIDENT, OKLAHOMA PEANUT GROWERS ASSOCIATION

Mr. JOHNSON. I'm president of the Oklahoma Peanut Growers Association and a member of the National Peanut Growers Group Steering Committee.

We believe that no group of agricultural producers has worked harder or sacrificed more in recent years to help bring about an acceptable supply and management program.

Mr. Chairman, the peanut price-support program does work. The peanut program has had a stabilizing influence on each State, county, community, and family farm involved in peanut production. The peanut program has maintained farm prices and income at higher levels than would have prevailed without the program.

The traditional program has provided a continuous supply of reasonably priced peanuts to the market while maintaining net returns to producers at satisfactory levels. The National Peanut Growers Group points to some of the following program achievements. First, program costs have been reduced to negligible levels by putting in place a strict poundage quota.

Senator NICKLES. Laverne, let me interrupt you. Could we have a little more silence please? I want to hear the last couple of panelists. We also want to make sure that our reporter can get it. If you would pull that microphone right up in front of you, that will be better.

Mr. JOHNSON. A series of annual reductions in the quota has reduced the supply in CCC stocks in quota peanuts to only a fraction of the pre-1978 level. Cost of the 1982 crop is reported by USDA to be about $4.2 million. The 1983 crop cost is expected to be even lower and even the 1984 crop with a record high level of production will result in little, if any, cost to the taxpayers.

CCC's management and administrative burdens with respect to handling and disposition of CCC stocks have been grossly reduced.

The two-price plan provides a vehicle for providing a continuity of supply of peanuts for export, although it involves somewhat greater financial risks for growers and handlers.

We feel that the following fine tuning must be accomplished in the 1985 farm bill. First, increase in the national poundage quota. The present national poundage quota. The present national poundage quota of 1.1 million tons is about 200,000 tons below domestic edible and seed demand. An adjustment in the poundage quota to 1.3 million tons would not be expected to result in program cost since the result would be a balancing of domestic supply with demand.

No. 2, tighten and clarify provisions in the marketing of additional peanuts. In order to effectively control program cost with the quota poundage set at the estimated domestic edible use level, it would be necessary to prevent the conversion of contracted additional peanuts into domestic markets. In other words, additional peanuts must only be contracted for export or crushing and such peanuts must then either be crushed or exported.

We will offer legislative guidelines to deal with this matter.

Stengthen quota price provisions. The quota price-support rates should be adjusted to more realistically reflect the continuing production cost increases experienced by growers.

We have picked up some opposition, Mr. Chairman, the last few months by a group that call themselves the American Peanut Product Manufacturers, Inc. The Peanut Product Manufacturers, Inc. have served notice through a Washington, DC, press conference held last December 13 that they intend to make every effort to eliminate the present peanut program. For the record, Mr. Chairman, I wish to point out that the National Peanut Growers Group took the initiative in early 1983 to set up discussions between the grower and manufacturer segments of the industry. There occurred four such meetings with the peanut sheller representatives joining us in the last two sessions. A spokesman for the manufacturers stated last June that manufacturers were looking forward to continuing the discussions with growers. But, they later failed to respond to our suggestion of future meeting dates.

The point I am making is that peanut growers have made a bona fide effort to work out program differences with manufacturers, but at this point in time there remains no indication that the manufacturers have any interest in continuing to try to resolve the differences. The present program framework is the best. In summary, the framework of the present program provides the capacity for an adequate supply of peanuts at reasonable prices; provides an effective vehicle by which the grower can best market his peanuts; provides a means by which supply and demand can be balanced; provides flexibility for production of peanuts for export markets for the more efficient growers; and provides a reasonable basis for financing the production and processing of the crop—all at a negligible cost to taxpayers. We believe the basic framework for the current program must be continued in the new farm bill.

Mr. Chairman, peanuts rank about third in agricultural gross revenues for the State of Oklahoma. Crop receipts were in excess of $50 million for 1984. Those figures relate to a $350 million business for the State of Oklahoma after an average turnover of seven times for each $1 received.

Without a doubt, Oklahoma peanut farmers will be vanishing breed without legislation to preserve the peanut bill within its present framework.

I heard our President in his State of the Union Address quote an old proverb, "As the family goes—so goes civilization."

Mr. Chairman, farm families in my area are all but bankrupt and some being forced to leave their way of life. History points out that more governments have failed from lack of internal security than from lack of armies, ships, airplanes, or bullets. I believe food and the ability to produce it is the very core of any nation's security.

Mr. Chairman, rural Oklahomans stand in your debt. We trust and pray every day that you will in some miraculous way persuade urban Senators or Congressmen to support the family farmers.

Thank you.

Senator NICKLES. Thank you.

Before you pass the mike, what were the sales of Oklahoma peanuts last year?

Mr. JOHNSON. In excess of $50 million, sir.

Senator NICKLES. How much?

Mr. JOHNSON. $50 million.

Senator NICKLES. $50 million?

Mr. JOHNSON. Yes, sir, gross.

Senator NICKLES. Thank you.

The next panelist we have is Clem Ward of OSU, representing Oklahoma Pecan Growers Association.

STATEMENT OF CLEMENT E. WARD, REPRESENTING OKLAHOMA PECAN GROWERS ASSOCIATION

Mr. WARD. Senator Nickles, representatives of the Oklahoma Pecan Commission and the Oklahoma Pecan Growers Association requested me to make a statement regarding some of the marketing needs in their industry. My remarks are equally applicable, I think, to many other commodities in Oklahoma. Rather than focus on the financial plight of agriculture as we have heard today, I would like to focus on the opportunity I think is facing agricuture.[1]

Many agricultural producers would admit that they are efficient producers but relatively inefficient marketers of agricultural commodities. We think electronic markets have a place to improve the marketing system for many agricultural commodities. About a year ago, the pecan growers met with the OSU extension staff and some other people to explore the possibility of an electronic market for pecans. The result of that first meeting generated enough interest and enthusiasm that we did a survey this past year of some of the buyers and sellers of Oklahoma pecans and the preliminary analysis suggests that the types of problems facing the pecan producers are the same types that we have seen electronic markets address in other commodities. Consequently, more research is necessary.

The Oklahoma State Department of Agriculture, the Division of Agriculture at OSU, the Oklahoma Pecan Commission and the Oklahoma Pecan Growers Association are in the process of putting together a market research proposal to the Agriculture Marketing Service of USDA to study electronic markets. Several previous contracts and grants by AMS and USDA have developed ongoing electronic markets and have generated considerable knowledge about electronic markets in general that we wouldn't have had we not had those grant funds. In fact, right now OSU has a grant from AMS to look at a grain electronic market. The preliminary results of that project suggest we are going to see at least one grain market become computerized probably within the next year.

Public funding, in other words, has increased the evolution to more efficient marketing systems. That public support is an investment in increased efficiency in our marketing system and a contribution that leads towards a healthier agricultural economy. On behalf of the pecan growers, your support of public research, extension and market development funding is appreciated and requested.

Senator NICKLES. Thank you very much.

Our next panelist is Jim Ross, representing the Oklahoma Honey Producers Association.

STATEMENT OF JIM ROSS, OKLAHOMA DIRECTOR, AMERICAN HONEY PRODUCERS ASSOCIATION

Mr. ROSS. Mr. Chairman, I am Jim Ross, Oklahoma director of the American Honey Producers, a nationwide organization of honey producers and beekeepers. I own and operate 1,200 colonies of bees located in the southwest corner of Oklahama. This is a family-size business dating back 50 years.

Beekeeping is carried on in most counties in Oklahoma. Conservative estimates indicate that Oklahoma beekeepers own 48,000 beehives and produce 2,112,000 pounds of honey annually. The more than 1,000 Oklahama owners are classified as hobbyists, sideliners, or commercial. Average national production totals 200 million pounds annually.

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[1] See p. 191 for the prepared statement of Mr. Ward.

Since 1949 our industry has had a price support program with nonrecourse, a feature and this has worked quite well until 1981 when foreign producers commenced heavy shipments to our low duty ports. Imports for this past year, mainly from Mexico, Canada Argentina, and Red China totaled 120 million pounds—more than 50 percent of our annual production.

Survival of our industry depends on the continuation of the Honey Loan Program. The administration proposal that the Honey Loan Progam be terminated will in short order bankrupt in the commerical beekeeper in the United States and this will mean a shortage of honey bees for pollination. The original justification of the Honey Loan Program enacted by Congress was to insure an adequate number of honey bees for pollination of 90 or more domestic crops. Today research indicates over $19 billion worth of agricultural crops have benefited as a result of honey bee pollination. We can import honey, but we can't import pollination.

Importation of cheap honey leaves the America keeper no market except the Commodity Credit Corporation. The so-called free trade policy of the administration discriminates against our industy because of the unfair trading practices of our trading partners. For examples, we charge 1 cent per pound tariff on honey while Japan and Western Europe charges 28 percent ad valorem.

In our own operations under the present conditions we have not had one increase in our wholesale price in the last 5 years, yet we have lost 75 percent of our package business in the last 2 years to foreign honey. This means that 75 percent of our production will be delivered to the Commodity Credit Corporation.

Our recommendations are that our main need is the continuation of the Honey Loan Program and import protection.

Senator BOREN. Thank you very much.

Senator NICKLES. Jim, how many honey producers did you say we have in the State?

Mr. ROSS. In Oklahoma there are over a thousand estimated.

Senator NICKLES. How many are commerical and how many are part time?

Mr. ROSS. The majority are hobbyist beekeepers. There probably are not over a dozen commerical beekeepers such as myself.

Senator NICKLES. The present program is probably, wouldn't you admit, not working?

Mr. ROSS. It's terrible.

Senator NICKLES. Then you agree it needs to be changed?

Mr. ROSS. Yes, sir.

Senator NICKLES. We will work with you and see——

Mr. ROSS. We don't need to drop the loan feature on the honey; that would bankrupt the industry. We need to have some fair practices dealing with imports from foreign honey. And the administration has proposed to terminate the honey loan feature. We don't have a market for our honey and we can't compete with China and Mexico.

Senator BOREN. China is the big problem. Thank you very much.

Can I ask George Weyrick from Duke, who has indicated that he would like to say a word to come forward? You can either come to the table or to the mike back there if it's working.

George, we're glad you're here.

Mr. **Weyrick**. Senator Boren, Senator Nickles, we certainly want to thank you for bringing this hearing to Oklahoma City today.

Senator **Boren**. A little bit closer to the mike.

STATEMENT OF GEORGE WEYRICK, FARMER, DUKE, OK

Mr. **Weyrick**. I'm George Weyrick from Duke. Gentlemen, by your actions of being here today you show that you're interested in the plight of American agriculture. I want to thank you for your interest and to Senator Boren especially for chairing this official hearing. In the interest of time, I will cut my comments down.[1]

I would like to go directly to the meat of what I have to say. I'd like to ask some questions at this time about some double standards that exist in the country. The first of these questions is: Why can we not help American agriculture when the United States can use Commodity Credit money to pay Poland's interest on the debt that is owed to large American banks?

The next question I have: If it is good for the country to bail out Chrysler, then why not for American agriculture a business that affects directly and indirectly over 27 percent of our American economy?

Why could we not afford to let New York City go bankrupt and yet say that it makes no difference to an industry that feeds and clothes everyone in the United States?

If the free market concept is so glorious, then let's let everyone share in the bonanza. Let's take all tariffs off every product. Let General Motors, Ford, John Deere, Tenaco, every business in on this great and wonderful concept. Everyone needs to be able to sell their product for one-half of the cost of production.

To Mr. Paul Volcker, directly, I want to address these questions: We are told the salvation for all of agriculture's ills is a balanced budget. If the budget is balanced, the mighty U.S. dollar will weaken and farm products will be more competitively prices so the story goes. Now for my question. In 1978, when the dollar was at a record low, why was our wheat essentially the same price as it is today with the dollar at a record high? If we had a balanced budget, would the dollar not be worth more than with a $200 billion budget deficit as it is today? In short, would our dollar not get stronger if we balanced the budget and our prices be worth less? There is something the matter with this story somewhere and someone is going to have to tell me where it's at.

Mr. Volcker, it is your stated belief that our economy can be controlled with interest rates. I can see three things very clearly that can be accomplished through the use of high interest rates: the first one of these is the transfer of wealth from the middle class and poor to the rich. The next thing is the destruction of American agriculture and small business. And, the third thing is the transfer of the assets of this great country to a small but vicious and powerful band of international financiers masquerading under the title of the Federal Reserve System. [Applause.]

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[1] See p. 198 for the prepared statement and additional material submitted by Mr. Weyrick.

And now two questions to Mr. Stockman, the budgetary wizard.

Senator **Boren**. I can hardly wait. [Laughter.]

Mr. **Weyrick**. Agriculture's share of the national budget is slightly over 2 percent. Why is agriculture asked to take over 10 percent of the proposed budget cuts? The Defense Department's budget for travel and entertainment is over $9 billion. Yet we read that not one dime can be cut from the seemingly precious item. What is the difference in priority?

Gentleman, I have asked these questions in hopes that you come to two very important conclusions. The first of these is that the free market concept under today's conditions is a cruel, total farce. The free market concept cannot work when there is no free market.

Until the Federal Reserve System is controlled, there is no hope for economic equality for American agriculture and small business. [Applause.]

Again I wish to thank you for the opportunity of appearing at this hearing. It is my sincere hope that you gentlemen can make an important contribution in the writing of the 1985 farm bill. My prayer is that the Lord will give you courage and wisdom in this task.

Senator **Boren**. Thank you very much.

Senator **Nickles**. Thank you.

Senator **Boren**. Thank you. If you would, give Kellye Eversole a copy of your statement. You've been asking some of the questions that I sure would like to get answered too. We appreciate your comments very much.

I'm going to call on Arnold Jansen. Is he still here?

STATEMENT OF ARNOLD JANSEN

Mr. **Jansen**. Senator Boren and Senator Nickles, I'm speaking as a farmer today, and the stress and depression the farmer faces today. I'm really grateful that the American farmer does have some people in Washington that understand our problems like you do. But, as a whole, the legislators in Washington regardless of politics haven't realized there is a problem on the farm.

We the American farmers have lobbied in Washington and our comments and requests have fallen on deaf ears. I resent being considered a leech or a parasite living off the American public and being considered a detriment to American society. Basically 20 years ago wheat prices were the same as they are today; 11 years ago I was selling wheat for $2 more than it is today. We would be willing to take our percentage of the budget cuts had we been tied to the inflation rate, as our production costs are. Loans are not the answers to our problems; it's profits. The Federal Government has finally realized they cannot borrow themselves out of debt and need some cash flow. What makes our problems any different?

Senator **Boren**. Thank you very much.

Nadyne—is it Ice?—From Geary is representing the Oklahoma Agricultural Women. We are glad to have you.

And, I'll tell you, our farm wives have done a terrific job on a number of occasions in coming to Washington and talking with people on the staffs of various Congressional offices. They have been tremedously effective.

STATEMENT OF NADYNE ICE, REPRESENTING OKLAHOMA AGRICULTURAL WOMEN

Ms. ICE. Thank you, Senator Boren. This is an organization, a State organization, affiliated with the American Agricultural Women.

If the policies that our Government has set out in the recent years for farms is to eradicate and take care of the weak, the over extended, the poor farmers, I would say they have succeeded. I think what we have now is the sturdy backbone, or root of our Nation; and I would say, yes, that we need additional exports; we need to regain our export market, but first of all, we need a price; and unless we can export at a price above the cost of production, it's pointless to export the economy of this country at a loss. [Applause.]

It would seem that everyone in this country and other countries have more to do with pricing our product than we do have. This is not a free market system. This is graft. We understand that our exporters—the grain exporters—have a margin of 3 percent of foreign matter that they are allowed and it would be acceptable to foreign markets. So it seems to be a policy for the exporters to put that 3 percent in. Therefore, they are shipping out of our country what started from the farm as good quality product and they are getting crud in the other countries; and that is destroying a good deal of our export market. We'd like to have help in getting that straightened up, Senator Boren.

Do you realize how much is lost to our economy in taxes when we on the farm are losing money? Every dollar that we spend that we gain from raising our product is from a renewable resource that turns over from five to seven times in our economy. This affects our small communities, our hospitals, our business prople, our farm machinery dealers. Our town is dried up and I can look around at the area communities, our hospitals are going out, not only are the machinery dealers—they have moved out of our town, the car dealerships, everything, dry goods stores, the drug stores. But our county seats are having that same problem. I come into Oklahoma City and I'm a member of the chamber of commerce here and I find they are having the same problem. Many are shoppers but they end up being lookers, because they are not making dollars because the root of the country, agriculture, is not making dollars. We buy everything retail and we sell everything wholesale. Do you know another business that operates like that and does it successfully?

When profit is made on the farm, we spend it. Our equipment is worn out; everything we are working with is in bad quality of condition. We need to replace that and if we could, we could put a lot of steelworkers back to work and a lot of in-between businessmen as well. We on the farm are vital to the quality of this Nation. What we do here turns over from five to seven times not only in dollar but in character. We operate on the law of reciprocity and we would like our Government to do the same.

We need equality and we need recognition as businessmen, viable businessmen. We need the representation and we need equality. We ask all of the Senate and the House recognize that and deal with us as businessmen, not as someone to be taken advantage of. Everyone from us on up have a profit out of it and we are operating at a loss.

Through the Historical Society, we were able to put a real nice collection of actual photographs at the State capitol depicting agriculture starting from the early 1800's to the present time. It was there less than 2 weeks, I believe, because we were asked to remove them because of such terrible sadness that it depicted. Does that tell you something? It should, because agriculture is the root of the Nation. There is a terrible sadness in it and it spread across the Nation. It's not only that, but it's spreading across the world. We ask your help to straighten that out.

I would like to suggest in the farm bill in 1985 that you would take into account the possibility of mandatory bushel or pound sales rather than acreage reduction and perhaps that would prevent us from over-using profitable land or tearing our marginal land and planting it in order to make those extra bushels to put money in our pockets to pay the people we owe. I believe that might help.

We also need the hay. We have the grazing and that helped, but we have had a bad winter and we haven't had near what we need in hay for our cattle, especially following a drougth. We definitely need that hay. We must be able to use what we have already got expenses in to pay for feeding our cattle just as if we have got to be able to use what is raised in America to feed our people.

Does our Government really want all of us to come to town and stand in soup lines and sleep on the street so they can manipulate us? Is that the point of this farm bill. I do wish you would go back to Washington and ask them that.

Those of us here on the farm feel like we're governed by USDA and the State Department and OMB. We feel like we have been put out of business and we feel the story in the photographs at the capitol told the story of the farm. How can we ask our sons and daughters to stay on the fourth generation farm and raise more wheat for people who are ungrateful and feed those people for nothing?

We appreciate everything you can do for us.

Thank you very much.

Senator Boren. Thank you very much. We appreciate your very strong statement, you know, and it seems to me whatever resources we put in, our first priority in writing the farm program for this year should be aid to the farms instead of aid to the commodity. Our first priority, on whatever dollars we have, has got to be to assure an adequate cash flow and return to the family-size farm unit. That's got to come first before we consider everything else.

It's unusual, isn't it, that we raised a big cry about El Salvador because about 20 or 30 people own all the land in the country. We said there was a need for land reform so we would have more widespread ownership of the land and more farm units. And, here we sit, right here in our own country, and allow policies to be carried out that are going to do nothing but concentrate the ownership of the land in this country. How ironic.

Earl Kardokus. Is Earl still here?

Senator NICKLES. Senator Boren, we might be better off if we would bring some of these witnesses to Washington, DC. That might help a lot.

Senator BOREN. I would sure like that.

Earl.

STATEMENT OF EARL KARDOKUS, FARMER, LOOKEBA, OK

Mr. KARDOKUS. Honorable Senator Boren and Senator Nickles, I'm going to yield some of my time. I have a lengthy statement for you to take back with you.[1] I'd like to say, you're searching for answers. We've got a peanut program that is working. Let's don't do with it what we have done with wheat and cotton. Let's take what we have got working, edit and change it and then spend our time trying to keep the peanut program working.

Senator BOREN. Thank you very much. Earl. We have the Rev. Larry Jones here.

STATEMENT OF REV. LARRY JONES

Reverend JONES. Senator Boren and Senator Nickles, I want to express my personal appreciation for what you're doing here this morning. I come to meetings similar to this, but usually I am like everybody in America and I've got my hand out for wheat and corn. And, over the past 6 years I've taken millions of pounds of American surplus, much of it from Oklahoma, to feed hungry children from around the world. But, in recent months from what I have read, from what I have heard here this morning, the problems we are facing are far beyond the U.S. Government. Secretary Block said in an article in the New York Times that "The farm policy for the past 4 years has not been helpful to the American farmer nor to the American taxpayer."

Now, how in the world could an evangelist from the State of Oklahoma have an answer to this problem when we have 110,000 employees in the Department of Agriculture paying them $38 billion a year; and with all this going on right now, farmers are going bankrupt at the rate of 36 per 1,000 across the Nation, which is three times faster than any other business. The Government does not have the answer. I'm sorry to say, Senator Boren and Senator Nickles, the administration is not listening to what you're saying. It's obvious by what Mr. Stockman has said.

Today I stand here with the farmers and their difficulty, but I'm also representing 800 million people who are starving to death. Every single day 40,000 people die because they don't have something to eat. Half of those, 20,000, are under the age of 5. I have held dying children in my arms. Now, something, being a history major, that I find interesting is that there have been 13 major famines in the Bible, but every time there was a major famine, there was another part of the planet that was so blessed they could take the surplus and feed the hungry and the starving who were experiencing famine and drought. Right now people are dying all over the world from starvation, but today we have over 2 billion bushels of surplus corn and wheat.

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[1] See p. 202 for the prepared statement of Mr. Kardokus.

Now, I'm going to give a very, very simple solution to a very, very complicated program. President Reagan got close when he said this, "It's time to take the feeding programs out of the hands of the Government and put it into the hands of the private sector." Nowhere in the Bible does God ever tell the Government to feed the hungry.

The one thing that has not been taken into account in the outline I received when I walked through the door or in any outline that our Government has is this: There are 339,000 churches, temples, and synagogues in America. If they decide to buy this surplus at the market rate and take it overseas and feed the hungry and the starving, we will come here next year and have a victory rally rather than trying to find some kind of a solution to a problem. It's very simple, You've got too much surplus. People are starving all over the world. God has told his people to feed the hungry.

Now, I would be the first person to tell you the church has become so conscious of buildings that she is not awake to the fact that 40,000 people starve to death every single day. We have gotten so Heavenly minded that we are not Earthly good. But, on the other hand, our Government when I appealed and asked, "Instead of taking that grain that's in the PIK Program and plowing it under, would you give it to me?" The Government responded with, "No. 1, we cannot trust the American farmer, because we are not sure he'll give you that grain; and No. 2, if he gives you that grain, we're not sure that you'll take it and put it into the hands of the hungry and the starving."

I want you to listen carefully. The problems that you have today, that you, are facing today are beyond you, but they are not beyond God. I know that if a sparrow doesn't fall on the ground without the knowledge of the Heavenly Father, there is not a farmer that goes bankrupt that God doesn't know about. A long time ago there was a group of men that said this: "We want to put a Bible in every motel and every hotel room in the world." They were called Gideons. I have a solution for you and I have a challenge for you. I'd like to see every coffee shop in every small town emptied out and I'd like to see every farmer and every rancher going to pastors all over this State. I have moved millions of pounds of wheat. If the 339,000 congregations in America catch this vision, I have a dream that, you farmers, the best salesmen you have are you. You can't go to China. You probably can't go to Japan. Go ahead and pay your representatives, but you can go down the road. You can go to Corn, OK. You can go to Gotebo. You can go to Purcell. You can go to Mooreland. You can go to Boise City. And every truckload of wheat that you get a church to buy—right now I'm on television stations all across this Nation, well over a hundred, reaching potentially almost half of this Nation. Every truckload of grain that you'll get a church to buy, I will raise the money to ship it overseas and give it to the hungry and to the starving.

President Reagan said, "Take the feeding out of the hands of the Government" and he's trying to give it back us. I challenge you again today. Pick up the challenge. Go down the road, go across the road, go to the next town. We can do it. It doesn't need to come from Washington, it needs to come from right here. We can do it. And I'll do everything that I can. You have fed me; you've fed my family; you've fed the American public for 200 years.

The church is a nonprofit organization. We have experienced tax exempt status. It's time the church stood up. She will if you give her a boost. But what I'm saying to you is this: Rather than send these two men who probably work 24 to 30 hours a day trying to solve the problems of America, you and I have the answer if we will stand up. And instead of putting money in bricks and mortar, we need to put money in buying this product that you have, the greatest source that you have is the churches in the United States of America. And if you will get it from them, I'll see that that product is taken overseas and we will reduce those who are starving to death every single day.

Thank you and God bless you. [Applause.]

Senator BOREN. Thank you very much, Larry. I think many of us in this room know Larry and we know what he's doing. We know how many hungry children he's already helping to feed around the world. We appreciate it very much and I think the challenge you made today is very well taken. I hope that something will be picked up in congregations across the country.

I want to ask Bill Widener and Bob Miller if they had any comments they would like to make.

Senator Miller.

Bob not only speaks for agriculture in the State senate, but he is in it himself.

STATEMENT OF BOB MILLER, OKLAHOMA STATE SENATOR

Mr. MILLER. Thank you, Senator Boren and Senator Nickles. We certainly do appreciate you gentlemen coming down and listening to us. We know this is like preaching to the choir to talk to you folks about our problems because I know you're very aware of them. But agriculture, of course, is in a very dire crisis right now, and we are facing the worst economic times since the 1930's, as you well know and everybody has started. We know and you know that if agriculture goes down, so goes the lending institutions, the communities, the businesses, and so forth in our country. So, we are, of course, looking to you and you have to be our spokesmen; you have to be our advocate, or we are gone; there is no doubt about it.

Agriculture right now is in somewhat the same situation that the Federal Government is and that is the cash-flow can't service the debt burden that we have. The main difference is that the Government can go ahead and borrow and spend money that they don't have, but we can't. The farmer and rancher is faced right now with the difficulty of borrowing money to continue their operation—even though in many cases they still have a lot of equity in their land, they are forced to sell out because their operation will not cash flow.

Senator Boren, I gave your office a program outline several weeks ago that I think will work. I would appreciate very much your considering it and talking back to me.

The most important thing I think for us all to consider, particularly you in Congress, in this great dilemma is not what will it cost to save agriculture, but what it will cost to lose it, to lose our agricultural industry in America.

Thank you very kindly for coming.

Senator BOREN. Thank you, Bob. Thanks very, very much. Thank you.

George Gentry. Is George here from Pryor?

STATEMENT OF GEORGE GENTRY

Mr. GENTRY. Yes. I would also like to get to the root of this problem. We all have a lot of answers here today. I agree wholeheartedly with Mr. Jones, except on this point: I just came back from the International Conference for Farmers from this country, farmers from all over the world. Farmers are going broke all over the world. People are starving. 70 percent of the people in the world go to bed hungry. I differ with Larry on this respect. This country was founded on the moral principle of, we are our brother's keeper. Love thy neighbor as thy self. When we talk—I believe it is immoral for us as any farm organization to talk about cutting back acreages, because the world is starving. It's the morals of the country. We have to look at ourselves very hard. Our country has always been the beacon of hope for mankind. The republican constitutional form of government.

I want to commend Senator Boren on his stand against IMF, International Monetary Fund, that's what that stands for, everyone. I would like you to comment on their connection with the five large grain cartels that control the food in the world. They control it. It's controlled. The free-market concept is a bill of goods that has been sold to the American people.

Our country was founded on a protectionism-type economics under Alexander Hamilton and the Carys. We taught the Japanese Government under MacArthur our economic policies and they were protectionism; that's what our country was founded on. That's what the Japanese use today. That's why they are so much more successful in many phases of industry than we are. We've got to get back to that.

Roosevelt got back to that during World War II. Some of the things Roosevelt did I do not agree with wholeheartedly, but he did the right things to win the war. Some of the things he did was he turned the right screws on our economic system. He gave farmers parity. We do not need handouts. He cut the budget. We do not need anything from the Government except parity, fair price.

It's what the farmers need right now. We need a debt freeze and a moratorium for American farmers. Or we're going to completely lose the independent American farm as we know it and we might end up with something vaguely similar to what the American farmer was. He's probably going to be working for Cargill or Bunky or somebody.

Also, I will not settle—I will not settle for us sacrificing our national defense of our country. I'm wholeheartedly behind President Reagan's strategic defense initiative. We are fighting such large financial powers that if we do not have a strong defense and that is one of the first priorities of our constitutional form of government, is a strong defense to defend ourselves. We are going up against very strong, evil people who control the finances of the world. I know this is some heavy stuff, but we all need to wake up now before it's too late. You two men right there, you have it in your hands—you do. We are facing this critical point in the history of mankind right here. What we are facing could and we don't know for sure, nobody knows the future, but it could make the last depression look like small times.

I want to end with this: If we can service our $150 billion debt every year, nobody talks about cutting that. That debt is paid to the same people that are starving in Africa, South America, and Mexico. The Mexican people in—Mexico's own Government are telling their people to eat—start eating cats and start eating rats, because all the beef goes to the United States. All phases of farming needs import protection. That goes back to the way our country was founded because meat is coming in, wheat is coming in. The countries that need to buy our wheat and soybeans cannot afford it because the International Money Fund policies.

I'm faced with this: The problem we have today goes beyond the immediate farm problem. Drastic actions must be taken now. Drastic actions are—we will not only lose the American farm as we know it. We are in danger of losing the U.S. constitutional form of Republic as we know it.

Thank you very much.

Senator Boren. Thank you very much.

Is John Christensen here? John.

STATEMENT OF JOHN CHRISTENSEN, WEATHERFORD, OK

Mr. Christensen. Senator Boren, I'm a small farmer. I also have spent half of my 60 years in life in the U.S. Army and the other 30 years on a farm.[1] I just want to comment on some of the things that were said today and perhaps first at your earliest opportunity remind the President that food is also an instrument of defense as well as fiber. I'd like to also suggest the possibility that one farm bill to provide all of the corrections to the different commodity groups of agriculture may be far beyond the scope of one farm bill.

As a matter of fact, as a wheat farmer, I see it rather ironic that the same rules and regulations apply to five different types of wheat grown under different economic conditions, grown for different markets, but yet we all are under the same criteria. Now, industry or business would not attempt to do such as that. So, this is a suggestion that I suggest that we look at very closely.

Now, I have had in the last several years a number of opportunities to talk to Canadian farmers who have passed through my town as custom combiners and almost every one I have asked a question: "How do you fare under the Canadian Wheat Board?" I have yet to have a Canadian citizen criticize the action of the Canadian Wheat Board. He says he knows before he plants wheat how much wheat he can sell and what he's going to get for it. Now, this essentially follows the lady's recommendation that the farm program look at the bushels and not the acres or marketing quota system or however your wisdom can determine that it should be gone about.

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[1] See p. 203 for a letter from Mr. Christensen to Senator Boren.

Another aspect in our farm programs is that we might as well forget about free enterprise and free markets and say that if we are going to have supply management, it has to be mandatory. Well, it just hasn't worked otherwise.

These comments I had written down here, but I've spoken extemporaneously and I would like to comment concerning finances. I am well aware that in reading the Wall Street Journal that there seems to be a different world in business and commerce and manufacturing than there is in farming. In this morning's Daily Oklahoman there is an advertisement for money to be loaned at the rate of 9¼ percent, but that's for shopping centers, office buildings, which there is a surplus of in Oklahoma City I am told. Now, I haven't seen such figures about investments in farmland or investments in farm operating loans. However, I think that same money is available for that purpose, if somebody encourages it. Now, I know that that particular advertisement is foreign money, but foreign money has been coming into this country in huge amounts in the last few years, but it has gone into the food distribution system; it has gone into the defense industry; and I think there is something we could do, perhaps, to assist that investment capital to flow into agriculture at a lesser rate than farmers are getting their capital for now.

I appreciate the opportunity of speaking to you. Over the last several years in walking over the wheat field and pasture, I have gathered some horseshoes and so that you might leave here with something tangible and knowing you're going to have to have some luck in what you do, I want to present to each of you a horseshoe.

Senator BOREN. Thank you.

Senator NICKLES. Thank you.

Senator BOREN. We need all the luck we can get. Thank you.

Senator NICKLES. I think he said he wanted us to kick somebody with that. I am not sure.

Senator Boren, it is necessary for me to leave, and I want to tell you that I very much appreciate your invitation to be a part of the hearing. It has been helpful to me and all of our guests today. You have had a good crowd that has stayed with you for a long time. Senator Boren does an outstanding job in agriculture. He is one of the leaders in the Agriculture Committee. I have had the pleasure of working with him and being educated by him and you for the last few years. He is doing a good job and I appreciate your allowing me to participate today.

Thank you.

Senator BOREN. Thank you very much. We appreciate your coming very, very much. And I want to say again that this has been something that all of us in Oklahoma have tried to pull together and I appreciate the help of Senator Nickles very much.

I'm going to be able to go on about 20 more minutes. I still have down eight or nine names here, and I would stay longer except that I'm due in Enid to have an open forum there for a couple of more hours this afternoon. I'll have people there waiting for me.

I would ask if each one of you could give the highlights of what you would like to say so I can get everybody in here on this list.

Dean Olson. Is Dean Olson here?

STATEMENT OF DEAN OLSON

Mr. **Olson**. I'd like to introduce a proposal to a farm program that will relieve this emergency in my opinion. The first step is to provide FmHA loans at 7 percent for the following: Long term for land and short term for operating expenses. Long term for land at 7 percent for 30-year term. Refinance existing high interest mortgages up to 50 percent and take second mortgage. Additional land purchases would not qualify. Qualified farmers should be noncorporation landowner and operator. The Government would only be subsidizing these loans by 3 percent or less. Short-term loans of 1 to 3 years for operating expenses only, used for annual operating expense, not to be used for capital expenditures. Only farm operators can qualify.

Establish a nonprofit organization to feed the hungry to be financed by tax deductible contributions. Have some imput and oversight by the Government so it will be known that our country as a whole is involved and not just a few individuals. Grain should be purchased from grain reserves and the CCC. This would help lower the reserves. This phase would not be Government financed. Continue a set-side program reducing direct payments to a limit of $10,000 per farm operator.

Continue set-aside at 30 percent and have a grazing provision so we will not be wasteful of our crops. Terminate deficiency payments in price supports to farmers that double crop. Operators must comply with procedures to receive a 7-percent loan.

Senator **Boren**. Thank you very much. Those are some good suggestions. If you have a copy of it, would you give it to the folks over here at the desk or if you don't have it written out for me and you want, you could mail it to me. But, if you have a copy that's in shape, we would like to have it because you've got some real good suggestions and I appreciate it.

Senator **Boren**. Ray Brown. Is Ray here?

Mr. **Brown**. I'm Ray Brown from Bessie, OK, and my wife and I own and operate a 200-cow dairy in Washita County, which is our only source of income.

Senator **Boren**. Could we have a little bit of quiet so we can hear Ray? Just pull that mike right up close there. They are wanting to hear you in the back.

STATEMENT OF RAY BROWN

Mr. **Brown**. We have been in the dairy business 9 years. We are participating in the diversion program. I would like to point out that the Government has been assessing us 50 cents or $1 on each 100 pounds of milk we produce, depending on what month it was, and this participation is not voluntary. All dairymen are paying for the diversion program and the taxpayer is not footing the bill as the media would have everyone believe.

I believe that the problems in the dairy industry stem partly from lenders encouraging farmers to market commodities through cows.

For example, when a farmer was in trouble FmHA, PCA, or a bank might suggest that he begin milking to generate cash flow, put bottomland to alfalfa for feed, or plant more grain sorghum and market it through the cows as milk. In addition, farmers were putting marginal land to wheat for pasture or hay, and marketing that through cows as milk, due to the depressed wheat price. The dairy industry was targeted as an economic opportunity by the rest of agriculture because comparatively it was on more solid ground. This is a result of years of organization and working with Congress for programs to overcome problems related to the production and marketing of a perishable product.

I agree with the other comments that have been made. The small grains industry could educate people at home, unite on a policy and get it through Congress and stay in contact to make sure the program works. They could also follow the diversion program set up by milk, regulating pounds of grain or pounds of cotton that could be sold, instead of acres.

The administration's proposal to get Government out of agriculture in 5 years makes me wonder who then will make decisions on massive agricultural imports and exports. If Government washes its hands of assisting agricultural stability here at home, who will preside at international trade talks?

Dairy diversion programs and promotion programs are working. I think a supply management board with limited Government control would be beneficial to the dairy industry because we need the support price to guard against deep swings in supply and, therefore, price. This price affects the cost to the consumer as well as survival of the dairyman. As with any agriculture endeavor some stability is necessary to afford long-range planning.

I appreciate it.

Senator **Boren**. Thank you very much.

Is it Wilford Widney? We are glad to have your comments.

I might mention just as you're sitting down, awhile ago we were talking about hay. We are continuing our efforts on that and our whole delegation has been united in working on that.

STATEMENT OF WILFORD WIDNEY

Mr. **Widney**. Thank you, Senator. I would like to go on the record as you giving this woman here a raise. If we weren't close to being done, I would recommend a recess for her.

I have some figures, but I'll be brief with them. The total of all crop production in the United States last year was $77.9 billion. The deficit since October 1, 1984, is $72.4 billion. That's ridiculous to me. I'll scan this.

I was in Washington last year. We were on the legislative conference and Harold Hunter talked to us about the REA budget. They were wanting to lower it. I asked the question how much this would lower the Federal deficit and he said it was so small you couldn't even measure it. I think we need hay and grazing on our layout ground. We might make some money at it, but also consider the swathers and balers that might be sold, too.

Senator **Boren**. The what?

Mr. **Widney**. The swathers and balers that might be sold.

In closing, a person eats about two bushels of wheat or 120 pounds of wheat a year. This amounts to one-third of a pound of grain a day. If wheat were $3.60 a bushel or 6 cents a pound, that is 2 cents a day for wheat. If wheat were $7.20 a bushel or 12 cents a pound. One-third of that would be 4 cents a day—2 cents a day is all it would raise the average person for their wheat supply for a day.

Thank you, sir.

Senator **Boren**. Clifford Duffy, are you here?

Mr. **Duffy**. I'm here, but I can't go through this—I've got about 5 minutes. I'll follow you to Enid.

Senator **Boren**. OK.

Are you sure you don't want to make a comment here?

Mr. **Duffy**. If you'll give me my 5 minutes.

Senator **Boren**. Come on up here and give your comments. I don't want you to have to go all the way up there.

STATEMENT OF CLIFFORD DUFFY, FARMER, DOVER, OK

Mr. **Duffy**. I'm Clifford Duffy from Dover, OK. I'd like to be called an independent farmer, but I guess I can't. I think agricultural producers are getting tired of being told more credit is forthcoming. We don't need more credit. We need a price for our farm goods that reflects a profit above production cost, including land costs and a return for labor. Lending institutions could charge zero percent interest on ag loans, but if you sell your crop below the cost of production, you're still going broke. Private lending institutions would willingly loan production money to any producer that could show the lender a known cost of production. If that same producer could show his banker he was going to receive a price that would cover all the production plus the interest, under this arrangement there would be no need for a loan to be guaranteed by the Government. It would be coming straight up front as it should be.

CBS in January gave a news release that one farmer is being lost every 2 minutes. If this is true, why is John Block and the administration continuing to tell the whole world that U.S. agriculture is healthy and will recover?

Senator **Boren**. I wish you could have been at the breakfast meeting where I was with the Secretary last week.

Mr. **Duffy**. I would like to have been there. I heard what he said. I'm going to get to that.

Senator **Boren**. I wanted to ask him if he had been to Mars for the last year or where he had been.

Mr. **Duffy**. After reading Friday's paper, I think somebody better go jump start Secretary Block's brain every morning before he comes to his office. [Laughter.]

He told the Joint Economic Committee of Congress that agricultural sales will increase and farmers will earn more, even at lower prices. Man, where is he at? He should pay the Government a $100,000 for his job if his theory is correct. Maybe he has solved the Federal deficit problem. If this theory is true and it could be passed all the way forward through the economy.

But personally I think he needs a jump start every morning.

If it is true that we are losing one farmer every 2 minutes, in just a short period of time you won't need a room this size to hold this type of meeting. You could probably put them all in a telephone booth.

We have a minimum wage law in this country that makes it a crime to pay labor below a certain level. What we have in the farm economy is just the reverse. It is a crime for agriculture to be paid below the cost of production, but there isn't a law to do anything about it.

Why not have a minimum pricing law for farm goods that are now under the umbrella of loans and target prices with a supply and management program to go along with them? Let's go back 5 years on the usages of both domestic and exported and have mandatory controls on the amount each farm can sell on a percentage of its actual production either proven or county average, regardless of its total production. If any producer raised more than this percentage fine, let him store it at his own expense to be sold when the weather or other cirucmstances prevented him from planting or harvesting his percentage for that given year.

We are not now or we won't ever sell acres of production, we are selling bushels or pounds. The minimum price not to be paid by the Government but by the actual user of said goods—where it should be. This won't take a thing out of David Stockman's sacred budget.

Under Block's formula of going back 5 years to determine a loan price, he has assumed it will save millions. I would challenge this by saying it will cost billions of dollars in jobs lost not only in directly related agriculture but throughout the whole economy. Let alone the welfare cost it will create at the farm gate and right up into the industrial level.

I think we have had a trickle-down economy for too many years, but David Stockman can't figure out why it isn't working. Maybe I shouldn't say this, but maybe they didn't teach farm economy in his divinity school.

You never will have a truly strong economy until there is an equitable price paid for raw products and then the multiplying effect will once again cause a surge in the economy. I know this will cause some inflation, but the United States is fast becoming a debtor Nation, with $121 billion trade deficit last year. If higher farm prices does cause some inflation, so what? I don't know of any business that doesn't or hasn't used inflation as leverage.

With Federal Land Bank interest at 13½ percent and land values dropping at least 10 percent a year, who can afford land at 23½ percent interest? No business of any kind can stay against these odds.

To me some inflation is a better alternative than bankruptcy, whether it be agriculture or our Nation. If the simplicity of a minimum pricing law is too confusing to the USDA and the economists still want to half-fund agriculture, why not freeze payments made to farms at last year's level to those producers who participated in the programs last year with the cost of production increase added in the coming years? Then let the producer grow fence to fence and take what the open market will offer. This should be low enough at the end of the first year to bring the market clearing prices that Secretary Block so dearly wants.

I read someplace that the definition of cheap food is food produced for more cost and sold below cost. Agriculture like this Nation can't borrow itself out of debt. We each have to show a little profit.

Senator Boren, I want to thank you for your efforts in putting this meeting together.

Senator BOREN. I appreciate your comments. Let me ask something out of curiosity—I'd like to have a show of hands from the audience. Several people have mentioned going on a bushel basis rather than an acreage basis on farm programs. How many of you favor that general approach, a bushel approach as opposed to an acreage? How many are in favor of an acreage approach instead?

That's interesting.

Is Lyndon Wahl here?

STATEMENT OF LYNDON WAHL, FARMER, FAIRVIEW, OK

Mr. WAHL. Senator Boren, I am Lyndon Wahl, a Fairview, OK dairy farmer. AMPI has been given adequate time to express their views as farmers and we do appreciate you convening this hearing. I would like to express one word of appreciation for something that is very popular with dairy farmers, and that is our 15 cents per hundredweight checkoff which goes for national promotion of dairy products and milk. This is working successfully. We have increased consumption in the past year by 4 percent and we want to thank you for the opportunity of having that program and the possibility of continuing it in our referendum to be held in September.

Thank you.

Senator BOREN. Thank you very much.

Dick Fowler. Dick.

Mr. FOWLER. Senator Boren, can you hear me?

Senator BOREN. Sure can.

STATEMENT OF DICK FOWLER

Mr. FOWLER. I envy your job, because it's impossible to provide a fair farm bill, because that's the first mistake the Congress is going to make. Because I'm in the cattle business, I've got to buy cheap wheat in order to make a profit out of feeding cattle. That's right.

I pay 17 percent interest where I borrow money. I've got to make 25 percent and you can't make 25 percent raising wheat. So I've got to buy it below the cost of production from the wheat farmer. Two-thirds of the income in Oklahoma in farming is from livestock. So, two-thirds of the people ought to out vote the other third, right? If you're talking about fair. OK, enough of that.

I think you should have the present administration fire John Block, because he does not have an understanding of the problem, because his boy called him and asked him why corn was so cheap. He said he didn't know, but if he had a magic wand he would do something about it. That's a quote out of the paper; that's nothing made up.

OK. I think Senator Nickles should join the investigation department of the Farmers Home Administration. They are either ignorant of the law or they are a bunch of crooks. I say that because I've three times been to Washington. I've talked to people, heads of the departments, all the way up. I spent a lot of money on phone calls talking to these people. I made three trips up there. I had $50,000 worth of cattle die in the drought of 1980 because I couldn't get feed. I got emergency feed from the AFC office in July after the cows had died in February.

Now, you could not write a credit program and let Farmers Home administrate it, because they don't want to abide by the law. They have already proven that. So farmers are in trouble that have to go to Farmers Home and get money have to comply where required supervision. And, I get sale bills from west Texas. I talk to these people. I've talked to people lately that are quitting farming and going to work for PCA or Farmers Home to get a job. Like you spoke of 38 million salaries. Have they said anything about cutting their salaries 10 percent or 20 percent to help out the budgets? The average Federal employee draws $17,000 a year in retirement pay. There is one USDA employee for every 15 farmers. You know what that's called? That's cultivating the farmer; so they are living off his back; they are cultivating him. Do you understand that?

Senator **Boren**. [Nodding yes.]

Mr. **Fowler**: OK, Stockman is talking about farmers being subsidized. Did you know IBM, General Motors, Kodak is borrowing money in Europe at a low rate of interest and turning around and buying U.S. securities and making a big profit out of it?

Senator **Boren**. [Nodding yes.]

Mr. **Fowler**. I got that out of the Wall Street Journal so it has to be true.

So, I'm not telling you what kind of farm program to write. We all know the problems, but I'm trying to tell you that action of the farm block it something that has to be done and you have the responsibility of—Congress has to budget themselves. They don't have to listen to Mr. Stockman. They could—what difference does it make what he says?

Senator **Boren**. We are going to do our best to revise what he said.

Mr. **Fowler**. That's what I say. [Applause.]

Senator **Boren**. Thank you very much. Somebody asked me the other day if I was head of the David Stockman fan club. I don't think I qualify for membership in that group.

Barney Crothers. Barney, it's always good to see you.

STATEMENT OF BARNEY CROTHERS

Mr. **Crothers**. Thank you, Senator. I don't like statistics but I've got to give you a few here. 14 percent of the wheat farms in Blaine County have been signed in a program; 4 percent of those would not take advance payments because if hay isn't in this year's program—I'm not talking about the new farm program——

Senator **Boren**. Right.

Mr. **Crothers**. I'm talking about this year's program. If the hay is not in this year's program, they will withdraw. That leaves you with 10 percent participation, which is a real disaster. I've got two more words that I want to say, one of them is "Price" and the other one is "Now". Thank you.

Senator Boren. Thank you. That said it all. Those two words. Well said.

Ralph Ransom.

STATEMENT OF RALPH RANSOM

Mr. Ransom. Senator, I want to thank you for this meeting and I'm sure agriculture needs this. The Government's cheap food policies has carried over from the 1930's to the present and consumers are getting their food at a fire sale price from the farm, below the cost of production. No other segment of the economy is forced to this. Labor has a minimum wage and all other segments have cost plus the profit as food passes up the process to the consumer.

We can longer afford to mine our soils and export our farm products and soil fertility at below cost with no profit? This so-called farm subsidy is really a consumer subsidy and should be called that. This cannot be stressed too much.

Senator Boren. Thank you very much. The last name I have on this list is Walter Adams. Walter.

STATEMENT OF WALTER ADAMS, SHARON, OK

Mr. Adams. Thank you Senator. As far as you holding this hearing all I can say is thanks, thanks, thanks. We appreciate it.

I'm Walter Adams from Sharon, OK, and I farm and ranch. I'm reminded of the old farmer that went to the carnival and the barber was up there with dancing girls and they were dancing and he was extolling for people to come in. He was telling them how wonderful it was going to be and the old farmer said, "Well, I guess I'll go in, but I sure want to see something new." Well, I know you guys came here looking for something new and I do have a relatively new idea.

Farm programs aren't working, but there is a reason for that. Every few years, we have a change of administration and they get in and they don't believe in farm programs and if anything happens, farm programs don't work while they are in. We need a long range program, but John Block says he wants to initiate a farm bill to carry us into the 20th century.

If his produce and export them market theory—remember it's now a theory with four years history in the past, rural America will never be the same. I contend that farm programs coupled with mandatory acreage control will keep supply in line with demand. With regard to wheat, I propose a wheat board composed of a least 51 percent of wheat producers. This board will determine how much wheat is needed for domestic consumption and for export and national security. We'll have national security reserve. This reserve can't be moved out at less that 150 percent of the average market price of the last 3 years. This would isolate it from the market.

Also, we are going to keep out traditional share of the market as Glenn English talked about. He uses a big word, reciprocity. We are going to use this reserve for that. We use 71 to 81 percent for an average for our share of the export market of wheat, our share is 40 percent. We will send a warning to these other exporters that we'll get one bushel for every five or one bushel for every four, one bushel for every three bushels to that new customer they are trying to steal from us.

Acreages are necessary. We're going to have to give up a little independence it looks like. One of the several benefits of mandatory controls are lost costs for retired acres. It will stop new wheat production east of the Mississippi where they are double-cropping wheat and soybeans. It will stop wheat production out west where they are plowing up pastures. With all of these benefits with a zero cost we really should consider this. We need to expand the Public Law 480; it is one of the best marketing tools we have. We need to expand our overseas promotion of our products.

The wheat board may seem unusual to us, but Australia and Canada, as this fellow pointed out earlier, it works for them and the EEC use that same concept also. Also, over 80 percent of the whole grain bought and sold in this world is passed through a Government agency. The only time we would need any help from the Government on this would be in the event of an embargo; and a politically independent wheat board would lessen the possibility of an embargo.

This new approach might worry some in agribusiness, but it shouldn't. We are still going to need our elevators, our terminals and our exporters. The big losers will be the traders, the Chicago Board of Trade. Stable wheat prices set by steady demand and a constant supply, that will not work well for trading at all. And maybe also the wheat board could faction into the price the difference in the values of foreign currencies. American wheat farmers cannot be expected to compete against countries whose currency is being devalued, such as Argentina as you pointed out is 86 percent. We can't compete with that.

We found out a number of places we can't look to help us getting a price for our wheat in Government, Government subsidies. Reagan has said those are going out. We don't like it any more than you do. Our wheat exporters, Cargill showed us they are in the business to make money not to sell U.S. wheat. And, our colleges, I'm very appreciative of. They can only help us with production and I really appreciate Dean Browning coming today and testyfing. We need to hear more testimony from colleges. This will have impact.

Another place we can't look for prices are the people that set a price every day and are very proud of it, the people on the Chicago Board of Trade. And our customers we can't look to them for our price. We couldn't sell it cheaply enough to please them. That just leaves us. Let us have control over our supply and sales. We can make it work. We can't possibly do any worse than the present situation. If the Nation can pay $600 for a toilet seat, they can surely pay $6 for a bushel of wheat. [Applause.]

Let us work today together for this wheat board for the common good. These drastic times call for bold new ideas. Let's give this idea serious consideration.

Senator **Boren**. Do you have a copy of that? Please get one to Kellye Eversole. I want to say also, Nancy Ripple from Midwest City has been here taking down this transcript and I think she deserves a big round of applause. We appreciate it very much. [Appause.]

She's going to be taking this down. She's making it possible for us to communicate directly with the broad audience in the Senate by making this transcript for us. We appreciate that very much.

I want to tell you all how much I appreciate your coming. I know what a hard time we are going through. I'm very, very concerned about what's happening on the farm. I'm concerned about what's happening to our economy in Oklahoma right now. We are going through as tough a time as we have gone through, in terms of our total economy in our State, since the period of 1928, 1929, 1930, 1931, and 1932. We really are.

I was on the floor of the Senate the other day. We cite all the statistics and we have cited some of them here today, but the statistics represent people, as we all know, and a lot of you are in circumstances yourselves, right now, that are very difficult, or a lot of your neighbors are. I've talked to people in our State that have been on the same farm for 3 and 4 generations, in some cases, that are now in danger of losing it; some have already lost it. There is a lot of heartbreak there, a lot of hurt and a lot of pain, especially for people that can't really understand it because they have been getting up early in the morning and working until late at night They have been effective, productive, efficient and, through no fault of their own, they are now having problems that are almost unbearable. I think I speak for the rest of our congressional delegation when I tell you that we care a whole lot.

I'm one Senator out of a hundred and Senator Nickles has been here and two of our Congressmen--two out of 435. We can never guarantee that we can bring the rest of the 535 along with us on every point we want to carry, but I do want you to know we are going to try our hardest and we are going to work every bit as hard as we can because we do care. I feel like I represent the best people in the world and I'm very, very proud to have a chance to speak for you. I hope when you go back, you'll tell your neighbors that we do care and we have listened and we are going to try as hard as we possibly can. I appreciate you all being here today a whole lot.

[Whereupon, the committee adjourned, subject to call of the Chair.]

REAUTHORIZATION OF THE AGRICULTURE AND FOOD ACT OF 1981

MONDAY, MARCH 18, 1985

U.S. Senate,
Committee on Agriculture, Nutrition, and Forestry,
Montpelier, VT.

The committee met, pursuant to notice, at 9 a.m., in the Pavilion Auditorium, Hon. Thad Cochran presiding.

Present: Senators Cochran and Leahy.

STATEMENT OF HON. THAD COCHRAN, A U.S. SENATOR FROM MISSISSIPPI

Senator Cochran. The subcommittee will please come to order. I'm very happy to be able to convene this hearing this morning here in Vermont. This hearing is being held at the request of Senator Pat Leahy. I want to publicly acknowledge and thank the chairman of our full Committee on Agriculture, Nutrition, and Forestry, Senator Helms, for authorizing this hearing to be conducted here this morning.

This is the Subcommittee on Agricultural Production, Marketing, and Stabilization of Prices. The purpose of our being here is to hear from the people in Vermont who are interested in the future of dairying in this State and in our Nation.

In Congress we must consider a number of farm programs this year. Many of the current programs expire on September 30, 1985. The Dairy Program is one that does. The dairy industry, like most other sectors of agriculture, is confronted with a long list of challenges and problems right now. I think most of these problems can be solved if we increase profits in agriculture. Farming is a business, and it has to operate profitably if it's to continue to survive. Returns on capital and investment in agriculture haven't been very good. There has not been much profit recently.

I know many dairy farmers in my State tell me that they are confronted with serious challenges in trying to operate their farms properly. I know the administration's farm bill contains a proposal to phase out the Government's Purchase Program and replace it with a Direct Payment Program. There are other proposals that are being considered in the Congress that will revise and reform the Purchase Program, and adjust the support price base. I also know there are some that contend that the present Diversion Program should be extended. I know that Congressman Jeffords, who is here with us this morning, has taken the lead in offering many innovative proposals that are under consideration now by the Congress.

But we're here today to get your opinions and your views. I'm delighted to be able to chair the hearing of this committee. We thank all of you for being here and helping us in this way.

Before we go to our witnesses, I'd like to recognize Senator Leahy for any comments or observations he might like to make. Senator ?

STATEMENT OF HON. PATRICK J. LEAHY, A U.S. SENATOR FROM VERMONT

Senator **LEAHY**. Thank you very much Mr. Chairman. I want to extend my appreciation to you, and appreciation to the State of Vermont, for being here. I'm delighted also that my colleague from the House, Jim Jeffords, could be here. Jim and I tend to feel that, as reauthorization of these farm bills progresses we live together because we spend so much time going back and forth between the Senate and the House when trying to get one enacted.

I've tried to make life easier for Senator Cochran this time. The last time he came to Vermont with me for a hearing, it was 50 degrees colder than it is today. When we arrived in the Northeast Kingdom, it was literally 30 degrees below zero, and the wind chill made it feel much colder than that. We had a Senator from Alabama with us. The Senator from Alabama looked at me and said "Leahy, you are very crazy." He has not changed his opinion one way or the other. I don't know if that's because of the weather in my home State or my legislative agenda.

In any event, I'm delighted to have Senator Cochran here. I would like to thank Senator Helms, chairman of the Senate Committee on Agriculture, for his permission to hold this hearing. The full committee will hold a hearing Friday, March 22, to hear testimony for proposals on a new Dairy Program, and I think today's hearing really marks the beginning of a process that will lead to enactment of the 1985 farm bill. This hearing will assist and focus the Senate Agriculture Committee on efforts to establish a sound and workable Dairy Program for years to come. As a Vermonter, as I said before, I'm especially pleased Senator Cochran could be here. As chairman of the Subcommittee on Agricultural Production, Marketing, and Stabilization of Prices, he is going to be very instrumental in writing this year's farm bill. I have the honor of serving as ranking member with him.

I'm also pleased that our opening witness will be the Governor of the State of Vermont, Madeline Kunin, and our new commissioner of agriculture. I think we're going to find the testimony valuable.

I think, Thad, you're going to find that Vermont dairy farmers are not unlike Mississippi dairy farmers. We're going to hear from dairy leaders, legislative leaders from both the State senate and State house, and most importantly, from dairy farmers themselves. They're the people that have to cope with high interest rates, rising production costs, a constantly changing Milk Price Support Program that makes long-range planning an impossibility. And I'm concerned that the family farmers are being told more and more by unsympathetic officials that they've either got to get big or get out. And I don't agree with the idea. As a Vermonter, I reject the notion that dairy producers have to get big or get out.

I think a sound and consistent farm policy could help maintain a viable dairy industry. I think we can do better than the Farm Program proposed by the administration. Two weeks ago I asked Secretary Block to name one farm organization in support of his dairy proposal. He was stumped. He couldn't name one—not a single one.

I think that we are in a situation where the Congress itself is going to have to write the Farm Program without leadership from the administration.

During the meetings I have had in the last 2 months all over the State, Vermont farmers tell me that there is a wide range of opinion concerning the needed provisions in a new program.

We're going to have a lot of debates in the Congress about our Defense Program and its cost. Our national security maintaining our ability to feed ourselves.

We're the only major military power in the world that can feed itself and its allies. We can never be starved into submission.

Food security is as much a part of our national security as whether we bring another battleship out of mothballs. Our 200-year-old history of being able to feed ourselves must continue to exist. We must not find ourselves in a position where, by the end of this century, we will have to start importing food. We must not end up in a situation where other countries have the ability to influence our foreign policies, economic policy, even our social demographic policy.

Having said that, I have given the longest speech now that you're going to hear from me today. We're here to hear from you. I want to stress the fact that this is an attempt to reach—I was going to say a bipartisan Farm Program. I think it's more important to say a nonpartisan one. That's what we need. I don't think that farmers need anything that appears to be a partisan program. What they need is a program that works.

Senator **Cochran**. Congressman, you may proceed any way you wish.

STATEMENT OF HON. JAMES M. JEFFORDS, A U.S. REPRESENTATIVE FROM VERMONT

Congressman **Jeffords**. Thank you, Senator.

I've enjoyed my years in the House with you, and I've enjoyed working with you on these important dairy problems in the joint Senate and Congress. I want to welcome you to the State.

I think Vermonters should recognize how lucky we are to be able to have the chairman of the Senate subcommittee, that deals with the dairy problems, here in Vermont. I don't know how many hearings you intend to have nationally, but I'm sure you are not going to be going to every State. And I'm sure that we are particularly fortunate to be able to talk to both Senator Leahy and Senator Cochran, who will have a leading role to play in what the next Dairy Program is in this country during the farm bill. Vermont, I think, is fortunate because we also will have the House subcommittee dealing with dairy here on April 13, and we will have the chairman of that subcommittee. And I know we're only going to have five hearings around the country. So we're again going to be fortunate in getting a subcommittee up here from the House so the

Vermont farmers will have an opportunity to say what the next Dairy Program ought to be.

These are going to be difficult times for farmers, but fortunately, due to the work of Senator Cochran and Senator Leahy, the work that we were able to put through this past year has worked very well in the sense that we've established great credibility, I think, in both the House and Senate of being able to come up with a program that would save money and get the program under control.

The next round is going to be more difficult, but I'm confident that, working together, we can do it. And I'm pleased to be here. Unfortunately, I'll have to leave at the break, but I appreciate the opportunity to be with you and hear your witnesses.

Senator **Cochran**. Thank you very much Congressman. We'll go ahead now and begin hearing from our witnesses. We're honored this morning to have, as our lead off witness, Governor Kunin. Governor, we welcome you and thank you for being here to assist the subcommittee in this way. You may proceed.

STATEMENT OF HON. MADELINE KUNIN, GOVERNOR, STATE OF VERMONT

Governor **Kunin**. Thank you very much Senator Cochran, Senator Leahy, Congressman Jeffords. First of all, I'm very pleased, as I'm sure all Vermonters are, that you've decided to hold a hearing on the subject of agriculture here in the State of Vermont.

In the Green Mountain State, as you know, there are also some wonderful green valleys, as well as hard scrabble hillside farms, which have been tilled for centuries. Our forebearers worked hard to clear them.

Our farms are not large, by midwestern standards—only 94 exceed 1,000 acres—but the 3,120 dairy farms which thrive today are critical; not only to our economy, but, frankly, they're essential to our Vermont way of life.

We would hate to see those green pastures turn to brush simply because of wrong-headed and shortsighted Federal policies. We have lost far too many already. What remains is precious; not only to the farmers themselves, but to all Vermonters.

We do not consider farmers a special interest group in our State, because all of us, regardless of where we live, know that we have a stake in Vermont agriculture.

Agriculture Secretary John Block and Budget and Management Director David Stockman have both stated they don't feel it's the Government's job to bail out farmers in serious financial trouble.

Now I agree. But today, when we debate agriculture policy, we're no longer talking about the farmer who is a poor manager. We're no longer simply separating the wheat from the chaff.

We're threatening to wipe out an entire generation of younger farmers, and these are good farmers. And the only mistake they may have made is that they were born at the wrong time. They have high debt services to pay, but they also have an extraordinarily high dedication to staying on the farm.

If the proposal as defined in the 1985 farm bill is adopted to phase out all commodity subsidy programs in the next 3 years, it's my guess that many of these good farmers, good managers—in fact, they may be the best we ever had—may be wiped out.

Now farmers, like all Americans, want to do their share to retire the deficit. And Vermonters, more than most, are known for their Yankee frugality. But they don't want to carry that burden on their shoulders alone. And they shouldn't be asked to do that.

We agree in Vermont that some changes in the dairy price support system need to be made over a reasonable period of time. But when you propose change, you have to have an idea of what the consequences will be.

Now I asked Secretary Block, at an agriculture committee hearing of the National Governors' Association meeting 2 weeks ago, if the administration—I believe you were there—had calculated how many dairy farms would go under with the proposed changes in the 1985 farm bill. His answer, frankly, was shocking. He simply said he didn't know. No thought at all had been given to the consequences of this bill.

It has been driven by only one thought in mind: To reduce the deficit and forget about agriculture policy; forget about rural America.

In Vermont, we cannot forget about rural America, because that is who we are.

Yes, take reasonable steps to reduce the deficit. And we'll tighten our belts along with everyone else, including the military. But at the same time, develop an agriculture policy which will keep the dairy farms in this State alive, which will make the spirit of rural America not just a sentimental part of our history, but a real part of our future.

The message this administration is giving is: Phase out dairy price supports over the next 3 years and then compete in the marketplace. But let's be realistic about the marketplace.

Today there is no such thing as a free market for agricultural products. National farm product programs, which were designed to alleviate problems in one area, in fact, often counteract programs in another. For example, tax shelters stimulate investment in agriculture, especially in the dairy industry, thereby increasing milk production; but, at the same time, we've been paying farmers to reduce milk production. We have to take a look at the whole picture—not each separate item.

Neither is there a free international agricultural market. How can we ask American agriculture to compete in the marketplace when every country subsidizes agriculture to one degree or another? We start off with a handicap impossible to overcome.

I believe it is of strategic economic importance for the United States to create a climate in which it is possible for good farmers to make a profit.

It's important to note that I did not say guarantee a profit. There must always be the pressure of competition to stimulate efficiency.

I urge the Reagan administration and the Congress to grapple with several issues. While our agricultural production is up due to advancement and technology and the hard work of our farm communities—we're truly the victims of our own success—there has been a rapid decline of family farms over the past 50 years.

We have to ask ourselves the question: Is a further decline advisable? Not simply the culling out process but a true decline. What does that mean to our ability to produce food? What happens, for example, if there's a drought in one part of the country and we are entirely dependent on that part of the country for our food? Or if some other catastrophe strikes, such as chemical poisoning or disease? Our Nation must have some insurance capacity, some surplus capacity, because our security depends on it.

From a national perspective, these factors must be carefully weighed, because we are truly limiting our capacity to raise food in certain parts of the Nation, if this present policy is adopted.

From a more local viewpoint, agriculture is essential to the survival of Vermont as a State. It is the foundation of our tourist industry, as well as to other sectors of our economy. We can't imagine life without it.

I ask you, as you help shape the agricultural policies of the future, that you give most careful consideration to the survival of the dairy industry in States like Vermont.

Vermonters don't want a hand out. They are used to tough times, and they have a lot of native ingenuity—some of which springs from learning to live on a land which is sometimes harsh and unyielding. But we today, in 1985, whether we like it or not—and we don't always like it—are somewhat dependent on what is decided by you in Washington, DC. We ask for your understanding of our needs.

Thank you.

Senator COCHRAN. Thank you very much, Governor, for your statement. We appreciate your getting our hearing off to such a fine start. Senator Leahy, do you have any questions of the Governor before we proceed to hear Commissioner Stone?

Senator LEAHY. I just have one. The Governor mentioned what happens in Washington. I think the Governor and I and Congressman Jeffords, and everybody else here, feel that we like to see what can we can do on our own, which is no different than the attitude of the people in Mississippi. I'm wondering, Governor, do you believe that Vermont can initiate State programs that will help dairy farmers?

Governor KUNIN. Yes; we can help with marketing, with promotion, with some technical assistance, but the large financial costs will still have to be borne by the Federal Government. That's been the traditional evolution of farm policy, and that's why the States have never been able to get into a price support system. But certainly, we can do much to help sell the product in terms of promotion and education, and we'll continue to do that.

Senator LEAHY. Mr. Chairman, in my 10 years on the Senate Agriculture Committee, this is the first time we've had a Governor testify on the Dairy Program. I appreciate her attendance very much. It's nice to have her as a lead off witness.

Governor KUNIN. Thank you very much.

Senator COCHRAN. Thank you Governor. Congressman, any questions for the Governor?

Congressman JEFFORDS. No; I just want to thank her for a very fine statement, recognizing many of the problems we have in this State, and especially young dairy farmers. And I point out, as I like to point out every chance I can, the Dairy Program we're just finishing with is the first major agricultural program where the farmers themselves have contributed and paid themselves not to produce, rather than having the taxpayers do it, and they are to be commended for that.

Governor **Kunin**. Thank you again for the opportunity.

Senator **Cochran**. Thank you, Governor. We're happy to have as our next witness Commissioner Paul Stone. Welcome. You may proceed.

STATEMENT OF HON. PAUL A. STONE, COMMISSIONER, VERMONT DEPARTMENT OF AGRICULTURE

Mr. **Stone**. Thank you Senator Cochran. I am Paul Stone, Commissioner of Agriculture for the State of Vermont. And in addition to my duties as commissioner, my wife Frances and I as partners, together with our four children, own and operate Stonewood Farm, a 70 cow dairy farm in Orwell, VT. So we're well aware of the dairy industry from that end.

Senator Cochran, chairman of this important committee, welcome to the Green Mountain State. We are indeed pleased to have you showing such a genuine interest in Vermont, and have setaside time in your busy schedule to come here to hear our viewpoints. We will be happy to arrange visits to some of our 3,200 very fine dairy farms if you have time. I don't know if your schedule allows that, but we would like to do that if you have time.

It is especially gratifying to me to know that our system of government works so well and is so responsive and interested in the people's point of view that it brings you to the hinterlands to hear us out. We appreciate that we are among the few citizens in this world to have this privilege.

Senator Leahy, we are proud that you hold such an important position on the Senate Agriculture Committee and that you're here again to hear testimony from fellow Vermonters. And we thank you for your past efforts to help us solve dairy problems, and we thank you in advance for your upcoming help.

Representative Jeffords, I hadn't expected to see you this morning, but welcome. We're certainly glad you're able to participate.

Vermont has approximately 3,200 dairy farms, 188,000 cows, and produces about 2.3 billion pounds of milk a year. We produce about 40 percent of the needs for New England, exporting 90 percent of our milk production. Dairy farm income is responsible for about 90 percent of the agriculture income of Vermont. We depend more on dairy income than any other State in the country for our agricultural income. New England itself is self-sufficient in mild production because Vermont is willing and able to provide it. Any national policy that prevents this well established system from functioning or radically alters it will probably be a disservice to the people of New England.

If you look at consumption of all New England foods, you will find that we import 80 to 90 percent of it. This is due to many factors. Our climate and topography limit food production other than milk. Beyond that, development pressure has gobbled up tremendous amounts of prime agricultural land. We further hope that signals coming from Washington will not discourage the one agricultural enterprise we are truly good at—and that is producing high quality milk. Our family farms, some held by families for centuries, can compete efficiently, if given the chance. These farms continue to provide an adequate milk supply for New England for the long term.

The question was asked what were we doing regionally. Vermonters are not leaving their destiny entirely to what happens in Washington. We are working regionally to solve problems. The Northeast Association of State Departments of Agriculture is now developing a northeast policy and will continue to work together to solve problems. This will be a long range policy for northeast agriculture. We are especially interested in expanding markets and the infrastructure relating to markets of all agricultural products. Another organization, the Regional Cooperative Marketing Association, a group made up of milk marketing co-ops and independent dairy farmers, is actively organizing northeast dairy farmers so that in the future they will be able to demand over order pricing for milk when it is appropriate. This is an important regional effort taken on to help ourselves.

On the State level the Vermont Department of Agriculture, Extension Service, College of Agriculture, milk marketing co-ops, and others are working diligently to help dairy farmers improve their profitability. These organizations help ensure quality product, markets, provide technical information, help with financial planning, management, and business decisions. Dairy farmers themselves obviously are working hard to keep up.

Dairy farmers do not rely 100 percent on what comes from Washington, because we cannot afford to. Signals are mixed, often conflicting and so often changed that planning is difficult or impossible.

Since 1972 there have been nine dairy bills. At first the signals were: Produce more milk. Then, woops, we goofed; hold off some, and the price was frozen in October 1980. Then double woops, when the Government bought 16 billion pounds of milk and dairy farmers were forced to pay themselves not to produce via the diversion program and the first ever tax on agriculture production was enacted.

It reminds me of the patient that just had a tooth pulled and yelled to the dentist that he pulled the wrong tooth. The doctor said to be patient; he would get the right one in a minute. When will we get to the right Dairy Program?

I do not foresee the right Dairy Program until we sit down and develop a long-term, long-range national food and agriculture policy. How can we develop a sensible dairy legislation or any agricultural legislation without a clear goal in mind? When people undertake business ventures, they have established goals and timetables. When the Government built Hoover Dam the goal was to provide electricity, irrigation, and recreation. When we were forced into World War II, our very clear goal was to preserve freedom. Unfortunately, we do not have any clear goals or plans for agriculture or for the family farm.

Who will be farming in 2020? Family farms as we know them today are well financed tax shelter farms. How many farmers should there be? There were 2.2 million dairy farms in 1950, but only 200,000 today. Do we want that trend to continue? Where will agriculture production be located in the future? Concentrated in the Midwest and Far West? Or will it even be in the United States? Is food production of strategic importance? Should our absolute goal be the cheapest food possible to ease consumer burden? How should we pay for our food production? Should consumers pay for the entire cost via the consumer price or should we split the cost as we do now between the farmer and the taxpayer? Is soil conservation important? Should our agricultural export policy be determined solely by our attempt to balance trade deficit? If so, are we willing to do so at the expense of family farms and increased soil erosion caused by improper land management caused by the pressure to produce?

I feel the time has come for some long range planning and goal setting and policy development. I look forward to the day when the governmental body is considering a law and the question asked: Will the law fit into our long-term agricultural policy, or will it comply with it? And we have an answer to that question.

Now for 1985 dairy legislation, I have a short-term and a long-term viewpoint. It is my opinion that we cannot make any decisions, set any goals, or develop a policy, since we have not done that, that will enable us to develop any long-term dairy legislation.

During the past 6 months there has been considerable discussion by Vermont dairy farmers and dairy leaders about the dairy legislation. I have yet to find anybody who supports the Reagan administration's proposal, which, as I see it, will phase out the dairy price support system in about 3 years. The Price Support Program managed by CCC dairy product purchases has worked since 1949 when it was enacted. There have been some problems over the past 6 years, but I think these can be corrected without abruptly ending the Price Support Program altogether.

The administration's entire farm bill proposal is predicated on a market-oriented approach. Today there are so many constraints and inequities affecting the national and world markets that there is no free market and no world market in which the U.S. family farmer can compete and survive. The administration's 1985 farm bill proposal calls for the demise of a very large number of farms in the United States and that includes many, too many in Vermont.

The market-oriented approach is nullified by many factors and forces in and outside the United States. Nationally we have conflicting policies. We send farms signals calling for full production and then abruptly reverse signals and expect farmers, ranchers, and agribusiness to absorb the reverberations and shock waves created. Our tax policy says invest in agriculture, which stimulates production, while our commodity programs attempt to cut production. Our budet deficit helps stengthen the dollar which reduces our competitiveness for international markets.

Many forces outside the United States destroy any resemblance of a free market. These factors range from lower production costs in many countries such as those located in South America, to farm subsidies and export subsidies in other countries, to the strong dollar.

After phasing out price supports the administration's 1985 farm bill proposal calls for target prices and deficiency payments to be the basis of future dairy programs. Unfortunately, the proposal is meaningless because the target prices are set far too low to be any kind of safety net. However, target prices and deficiency payments should be studied seriously for they may have a great deal of merit for future dairy programs. Target prices have been used in grain and there is some support for their use with dairy.

For many years commodity programs have attempted to meet two conflicting goals: One, to enhance farm income by providing a floor below which price could not drop, and two, to set floor prices that would not stimulate production.

For dairy this system worked well from 1949 to 1979. Today is a different story. Conditions have changed drastically.

Consider these changes: Increased interest rates, lack of export markets, new income tax policy, decreased number of farms, increased size of farms, improved transportation, budget deficits and the strong dollar, lack of off-farm job opportunities, grain embargoes by the United States for foreign policy tools and to keep U.S. food prices low, strong foreign competition for our traditional agricultural markets, pressure to bring agriculture imports into the United States, tremendous consumer pressure to keep food prices low, much diminished differences in standard of living between farmers and nonfarms, and more. Many people feel today that the old guard commodity programs are out of date and should be modernized to fit today's conditions. I agree. This again points out the need for a national food and agriculture policy.

If long-term solutions are not now possible, what short-term solutions are? By short-term I mean something that will last at least 4 years until the next regular farm bill in 1989.

We are just completing a very short-term transition program, the paid diversion, which was supposed to bring the tremendous surplus production of 1983, 16 billion pounds of milk, to a manageable level. Unfortunately, the program was too short to accomplish all that was needed and we will still have a surplus in 1985 of an estimated 9.1 billion pounds.

The Diversion Program was successful in that it did reduce milk production and Government costs by $1 billion. The program was paid for entirely by dairy farmers and they should be proud of that. What other group can say they saved the U.S. Government $1 billion in 1984?

I think farmers should be proud that this program was supported by them and it did work. We recognize there is still a tremendous need to produce milk in this country and that grain prices are favorable and will probably continue to be for several years. The Federal income tax policy favors production, and consumption will probably not increase as rapidily as production even with the new and very beneficial national milk promotion efforts.

In the absence of long-term national policy, what can we do now? The situation, in a nutshell, is that there's currently too much production. We are threatened with a tremendous future capacity to produce even more milk, given more signals, and dairy farm income has been declining for 5 years. Two other thoughts come to mind. First, a recent New York Times/CBS News poll showed 65 percent of the public thought it was a bad idea to spend less on farm aid in order to reduce the Federal deficit. And two, at a recent meeting of the National Association of State Departments of Agriculture, commissioners and secretaries of agriculture overwhelmingly approved a resolution that calls for farm income maintenance and production controls if farmers approve them by referendum.

There are three distinct possibilities for a 1985 farm bill. One is quotas. These have been suggested. They have an appealing possibility of controlling production and stabilizing farm milk prices. They are working successfully in Canada. However, I doubt very seriously if a majority of U.S. dairy farmers would favor quotas after giving them thoughtful study. And the Reagan administration will not support them, so I think this option is out.

Target price deficiency payments. As already mentioned, the administration suggested this method but failed to set the target price at a reasonable level. Since the administration has only one goal in mind, that of cutting the budget, I doubt that they will consent to a target price set high enough to help maintain farm income even if there is a cap on payments to farmers. So this idea is not a viable option.

So what does that leave us? As I see it, the only thing it leaves is what I call radical thinking. Since production controls are not realistically obtainable this year the only method left to control production and attempt to stablize farm prices is to cut the price dairy farmers receive in order to get them to cut production.

It will be difficult at best to set the price support level to maintain a floor to prevent family dairy farms from being driven out of business and at the same time to prevent a stimulation of milk production nationwide. As already mentioned, I don't think it's possible to accomplish these two goals withone policy, given the conditions that exist today. However, if we use this method, I hope we adopt a price support program managed by CCC purchases of surplus commodity products. If radical tinkering with the old price support is all that is practically possible for the 1985 farm bill, then I support the following report of a Vermont ad hoc dairy farm bill committee.

This committee met monthly since last June to discuss the various possibilities. I worked with the committee, but I do not enthusiastically support the conclusions. This committee was called by the Vermont Farm Bureau, the Vermont Department of Agriculture, and the Green Mountain Federation. Dairy leaders from all over Vermont participated in this; in about 8 or 10 different meetings. And we came up with following report.

No. 1, to maintain dairy price support program using CCC purchases to stabilize price.

No. 2, fix the price support no lower than $11.60 until actual CCC purchases reach 5 billion pounds. At that point the Secretary will be required to institute a dairy specific economic formula adjusted twice annually based on an index of prices paid by dairymen.

No. 3, there should be a supply/demand adjuster to take effect if CCC purchases are predicted above the 3 to 4 billion pounds. This would be at the Secretary's discretion and would be adjusted twice annually.

No. 4, the committee did not take a position on a standby diversion program.

No. 5, the committee did support—does support—the present promotion program.

The committee did not take a postion on a standby diversion program that could be enacted and ready if the rest of the program failed to control production. I do support a standby program because I'm sure that the price method for controlling production will work or that it is the fairest way of doing it. Something must be in place and ready to work in case production increases rapidly and price plummets because of the economic formula or the Secretary, in his discretion, makes adjustments that decreases price. We cannot afford to go through another round in Congress in the next few years similar to what happened over the past 6 years. It was bad for the image of the dairy industry and extremely demoralizing for farmers.

As legislation is drawn up, I hope we can keep in mind two goals. One would be to maintain adequate farm price for milk so that family farms can continue to operate profitable businesses. And, two, to ensure an adquate supply of milk for the consumer.

Thank you.

I have some additions to my testimony. One is the position of the National Association of State Departments of Agriculture. One is a statement on how tax shelters impact on agriculture. And a second, a third one is a long-range national agriculture and food policy that was developed by the Addision County Farm Bureau—Addison County is one of the major dairy counties in the State of Vermont—this past fall. So there's three additions to my testimony.

In addition to that, as always, wives tend to have a different point of view, so I am submitting testimony from my wife today. Although we agree pretty closely, that's her contribution to this process.

I'd like to thank you very much.[1]

Senator **Leahy**. I have Marcel's opening statement in here somewhere, too.

Senator **Cochran**. All of that will be included in the record, Commissioner. We appreciate your supplying information to us as we consider the options available to us. One thing I want to ask you is whether or not there is a good argument, in your opinion, that we could advance to the Secretary of Agriculture to convince him not to exercise his discretion to reduce the price support 50 cents July 1. I'm thinking that it would be a big help to dairy if we could get the Secretary convinced that he should make an early announcement to forego his discretion on July 1 if removals are built up to the point where it would trigger taking another 50 cents off the support price. What arguments can you provide in the subcommittee this morning, if any, that would help convince him that that would be a good idea?

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[1] See p. 248 for the additional material supplied by Commissioner Stone.

Mr. STONE. Well, I heard him speak last week, and I'm not sure he's convinceable. But my argument would be that dairy farmers are not in the same position that grain farmers in the Midwest are today. But nevertheless, dairy farm income has been declining for 5 years; that is, the amount of money left after all bills and living expenses are paid has declined from $13,000, 5 years ago to $4,000 in 1984. And I think this is an indication of what's happening on dairy farms. And that further price cuts will simply exacerbate this. So from the dairy standpoint, I think he needs the additional income. Unfortunately, the Secretary's argument, I'm sure, would be it's going to stimulate more production and we already have too much production, so what's good for the farmer is not necessarily good for the industry.

Senator COCHRAN. Senator Leahy.

Senator LEAHY. Thank you Mr. Chairman. Before I ask the question, I should point out that we have at the back of the hall some forms, available at the door, so that people who wish to record views or additional comments, agreeing, disagreeing, or additional to anything that is said here today by any of the witnesses. Please use the forms to state something you what to say on your own, in the way Mrs. Stone has. Don't hesitate to fill out a form and leave it with me to be included in the record. I should point out Ron Allbee is here with me. For those of you who don't know Mr. Allbee, I should point out that he works with me on agriculture matters here in Vermont. Rather, with the amount of knowledge that Ron has, I work for Ron on agriculture matters here in the State. He represents me several days a week around the State of Vermont on different agricultural issues. He has been traveling around Vermont to gather views of farmers. He has joined me at most of my meetings I've had here. You should't hesitate to corner Ron or myself and tell us your views. We also have Dave Dyer who is here from the Senate Agriculture Committee, and David Graves from Senator Cochran's staff.

To go to the Commissioner's question, I know there have been a series of meetings on the farm bill. I've been in a number of them, and I know Jim has and others have. You do not give overwhelming support to Vermont's 1985 Farm Bill Committee report. Is that accurate?

Mr. STONE. Yes.

Senator LEAHY. What would you support? If you could come to Washington and simply enact the legislation—unfortunately none of us can—without being really constrained in what you could write, what would it be in the Dairy Program?

Mr. STONE. Well, without being specific, I like the concept of some kind of production control. I think the Diversion Program worked. It brought production down. I don't think if sacrificed farms in Vermont or nationwide. And I think that some form of production control in the future is going to be inevitable if we really are going to be serious about saving our family farms.

Senator LEAHY. But you don't think a quota system would do it?

Mr. STONE. I think given the constraints, the amount of paperwork, boards necessary, the constraints on individual freedom, it would be very difficult to institute it in the United States today. And I doubt seriously if farmers would opt for that.

Senator LEAHY. Have you reviewed how the quota program operates in the Province of Quebec?

Mr. STONE. Yes, we had Loren Herd down to a meeting a couple of months ago, he described in detail their program. It took him a long time to describe the surface of it without getting into the real details. It's a very complicated program, and I don't think it's the kind of thing that we would approve.

Senator LEAHY. I did mention that, just in passing once, to the Secretary of Agriculture, and his reaction leads me to believe that he felt that there may be certain political restraints from administration.

Mr. STONE. Actually, if you look from the farmer's point of view, in the 1960's there was a wheat referendum to see if they would support some kind of a quota system, and it was rejected overwhelmingly.

Senator LEAHY. Are there changes in the Tax Code that might be made to benefit the family farmers?

Mr. STONE. I think so. I think there are serious problems with the tax consequences in the United States today. There are many things that stimulate production, investment tax credit, rapid depreciation, cash accounting. These kinds of things are available to all farmers, whether they're a family farmer or somebody who is bringing in outside money to invest in agriculture. For example, I think a very striking example is that if I, as a farmer, raise a heifer to the age of 2 years and try to sell her as a bred heifer, and it cost me $1,000 to raise her, I must sell her for $1,000 to break even; assuming I'm in a low tax bracket. If an investor in the 55 percent tax bracket has that same heifer and it cost him $1,000 to raise her, he can sell her for $642 and break even. There's no way that I can compete with that person.

Senator LEAHY. It's something that we must look at. I worry, as a Vermonter, that farms simply may end up being tax shelters. Then, the second that farming isn't a tax benefit, they will just shift it to another use. And that other use may well not be an agricultural use.

Mr. STONE. That's correct.

Senator LEAHY. I think we must realize that as we shift more and more land out of agricultural production, it never returns to agricultural production. When we look at the problems, for example, in California, the problems of irrigation, run-off, and so on, we realize that that land runs out. It does not matter that we are a large and well blessed country. Land is still precious. I think your point on tax matters is well taken.

Mr. STONE. I might point out that I think that these tax benefits are very helpful to real farmers in trying to allay taxes. But the problem is it's gotten out of hand investors are using them to a greater extent than farmers are.

Senator LEAHY. We want farm farms; not hobby farms. Is that what you're saying?

Mr. STONE. That's correct. If you look at the flow of money in and out of the department of taxation, there's a lower flow in the Treasury because of tax shelters in terms of billions of dollars. That was the report before the Finance Committee last year that pointed this out.

Senator **Cochran**. Congressman?

Congressman **Jeffords**. I just want to thank you, Paul, for your usually good statement. I'm sure I'll have an opportunity to question him in hearings next month. I'll be really prepared, now that I know what you're going to say.

Senator **Leahy**. If you're like me, you're used to having heard from Paul anyway. Thank you very much. Mr. Chairman, I wonder if I might introduce our next witness to you.

Senator **Cochran**. Please proceed.

Senator **Leahy**. Our next witness is Senator Francis Howrigan, who is from Franklin County. He's from the State senate, where he serves as chairman of the agriculture committee. He and his brothers, cousins, sons, and daughters populate a large area of Franklin County—some of them are here this morning—and are among our model farmers in that area. Senator Howrigan is here today because we were wise enough not to have the hearing yesterday on St. Patrick's Day, which would have been a matter of great scandal in the Howrigan family. I'm pleased he could be here. As a personal note, Francis Howrigan is a man that I've gone to for advice on farming matters long before I was in the Senate and throughout my 10 years on the Senate Agriculture Committee. I'm delighted that Senator Howrigan can be here with us today.

Senator **Cochran**. Senator, we welcome you to the hearing and appreciate your being here. You may proceed.

STATEMENT OF HON. FRANCIS HOWRIGAN, A VERMONT STATE SENATOR

Mr. **Howrigan**. Good morning. Thank you Chairman Cochran, Mr. Leahy, Mr. Jeffords. I am Francis Howrigan, as the Senator said, a dairy farmer in Franklin County; also chairman of the senate agriculture committee. I think I have a possible solution to the dairy surplus problem. It is palatable to the farmer and would cost the Government only a few pennies. We need a three price structure.

One, I would increase class 1 slightly by taking into consideration in the makeup of parity fuel, taxes, utilities, interest, labor, and machinery; articles we have to have or have no control over.

Two, I would leave class 2 price unchanged.

Three, the third price would apply to the percent of surplus in the market.

Here is how it would work. We will take a hypothetical case of a farmer producing 2,000 pounds of milk a day. For simplicity's sake, take the ease in percentage. If there is a 10-percent surplus, that means 10 percent of 2,000 pounds would be 200 pounds. Cut the price of those 200 pounds at least $5 per 100, which would be $10 a day, and that would tend to discourage increased production. The formula would not hurt the farmer as much because he could plan. He'd know where he stood. One, or A, he could dry off a few cows nearly ready to go dry; B, he could feed less grain; C, he could cull more cows; D, he could see more milkers; E, he could feed more milk on the farm for veal or raising heifer calves.

As you can see, this formula would not hurt his net cash flow, but it would be very important because it would discourage increased production. And this is the goal, as you say.

We have a surplus. Let's be honest and try to solve it. The present formula of taking 50 cents per 100 times 2,000 pounds equals $10, plus the second 50 cents they're talking about is another $10, so that's $20 a day deductions, with a trend to increase production to maintain cash flow. There's nothing simple about it. If a man needs x number of dollars, he'll cut the price, and he'll try to make another 100 pounds of milk to make the cash flow. It tends to work worse than the situation.

I am tired of the American farmer being made the whipping boy of the country. Statistics say we are the most efficient segment of our industries, but are paid less than our overpaid and less ambitious coworkers in other manufacturing industries. The fact remains that it costs less to carry a full dinner pail with good and wholesome food here than any other country in the world.

In consideration of these facts, I hope you will play fair and not flood us with imports. Most dairymen do not want a handout; just a chance to compete on an even basis. The Government, in many instances, talked the farmers into the increased production for their cheap food program.

Thank you.

Senator COCHRAN. Thank you very much Senator Howrigan. What, in your judgment, would be the impact of an additional 50-cent support reduction on the dairy farmers in your county, Franklin County?

Senator HOWRIGAN. It would hurt, as you can multiply the figures out, and it would, as I pointed out, it will not cut production. It will make some of them try to make a little more. Some of them, sure, will fall off. Some of them will lessen. Some of them will quit. But some others, in a dying effort, will try to make a little bit more. And that's exactly what's happened. And sometimes I think that's what the Government wants to happen. They pat you on one hand and hold you back with the other and hope you'll go ahead.

Senator COCHRAN. Thank you. Senator Leahy?

Senator LEAHY. I heard somebody testify once, Mr. Chairman, for 25 minutes. A person who came to Vermont from Washington testified, and he ended up basically saying what Senator Howrigan said in two sentences and nowhere near as well. I tend to agree with him. I also tend to agree with what he said about giving the farmers a chance to compete farily. I think the American farmer can compete with farmers anywhere in the world, if they can do it on a level playing field; if they can be given the same opportunity. But I think that we are faced constantly with the problem of imports from heavily subsidized agricultural products. We're dealing with an over-valued dollar against imports subsidized by their own Government. I agree with the Senator in his comments that we don't get a chance to compete fairly, but let the American farmer compete fairly, they can compete with farmers anywhere in the world. Senator Howrigan, I said earlier, I referred to your own work as a dairy farmer in Franklin County and that of your brothers; and I meant what I said, that your farms are really models for Vermont and for anywhere else. But you've been in farming for a long time.

What if you were somebody newly married, young couple today; what kind of future do they face in farming? What if you were in your twenties now and just married, would you be looking forward to a career in farming?

Senator **Howrigan**. I don't think so. I've said before, I don't believe that I know how I could operate under the conditions, with a big mortgage and the high rate of interest that some of them have. Things have changed drastically. When I started in, you could buy a farm and pay for it, and you would buy another one. If you worked hard enough, you could pay for that one. But I don't think that is possible in very many cases. I see some people trying to. They're working double shifts. Their wife is working. As soon as the washing machine or something breaks down, they're in trouble—through no fault of their own. I think this formula would help because it's cheap to operate, would get the Government right out of it in no time at all. I mean they've got all the figures down there. All you would have to do is say well, 60 days, for instance, 10 percent surplus. When man makes his cut, you've got to give 4him credit for it. So it would be very easy to, and very simple, to operate; very foolproof. Man, for some reason made a little over, so he gets $5 less for that few hundred pounds at that particular time. He wouldn't get his hand cut off for anything. But it would be as simple as that.

Senator **Leahy**. Thank you sir.

Senator **Cochran**. Congressman.

Congressman **Jeffords**. Oh, I'll again defer my questioning until later. I just want to say I share Senator's Leahy's enthusiasm for Senator Howrigan, and I look forward to working with him again, as I have in the past.

Senator **Cochran**. Thank you very much Senator for your contribution. The next witness is Robert Starr. We appreciate, Mr. Starr, you're being here. Mr. Starr, as all of you know, is a representative. We ask you to proceed in any way you choose. Thank you.

STATEMENT OF HON. ROBERT STARR, A VERMONT STATE REPRESENTATIVE

Mr. **Starr**. Good morning. And I'd like to thank you for holding these hearings in the beautiful State of Vermont. My name, for the record, is Robert Starr, chairman of the house agriculture committee, and I will be testifying on behalf of our committee.

I want to impress upon you that the 1985 farm bill is very important to not only the Nation's future but to Vermont's future. Our economy in the State of Vermont has three parts. We have industrial, recreational, and agricultural. All three are very dependent upon each other, but especially the latter two. But of course the people from our large industrial concerns like to view our cows grazing in the meadows and our beautiful valley and hillside farms.

Vermont is a State built on a strong agricultural foundation, whose farms have traditionally been family operations. We feel it is essential that these farms be maintained. Farmers may not be the best businessmen in the world, and that may be part of the problem. But any program aimed at shifting Government policy should take into account a social responsibility to the benefactors of that policy.

Under the proposed plan, the rich will get richer and the poor will get poorer; for it is certain that only the rich will be able to survive through the drastic price fluctuations and market unrest destined to come under the administration's proposed plan.

David Stockman has been very outspoken in the Dairy Program, and I quote:

> For the life of me, I cannot figure out why the taxpayers of this country have the responsibility to go in and refinance bad debts that were willingly incurred by consenting adults. Why is it any different from small business? Hundreds of thousands of them go out of business every year. Farming is a business. It doesn't need subsidies any more than any other business.

Well, there are a number of reasons why farming is not a business just like any other. Farmers are at the mercy of the weather. And even fine weather can depress prices with bumper crops. Also, farmers have their prices set by Government. And, as I see it, the biggest reason they're not just like any other business is that they feed us. Only 3 percent of our population feeds the other 97 percent as well as exporting large amounts.

Does this justify a national effort to help farmers through a crisis not of their own making? I say yes, and the public says yes.

In a recent study of 4,000 consumers regarding dairy farmers, 80 percent favored giving dairy farmers more Government help. These consumers did not find dairy farmers responsible when dairy prices increased, and did not disagree with the statement that dairy farmers aren't making enough profit on the sale of milk.

The executive proposal needs much more study than a mere referral to the supply and demand market system taking care of itself. The open and free market system may be a good thing for agriculture, but thought and educated planning should come before an abrupt change in the policy if we are to prevent a potential disaster. Remember, agriculture is the mainstay of America.

We recognize the decisions affecting American agriculture must reflect a working partnership of the Federal Government with the States in both the formulation and implementation of policy. Both Federal and State policies affect the preservation of the family farm.

I have set up a subcommittee within the Committee of Agriculture in the House that will be drafting proposals that we will be forwarding to you people in regard to the 1985 farm bill. And I'd like to again thank you for having this opportunity to come before your committee.

Senator COCHRAN. Thank you, Representative Starr. We appreciate knowing that your committee will be submitting those recommendations to the committee. I don't know of any challenge since I've been in Washington that's more important than our being able to be successful at writing this new farm bill. I think we're at a point where we've got an opportunity, given the attention that's being focused on the problems of the farm, to help educate America all over again in the importance of agriculture to our country. Some 20 percent of our labor force is involved in some way or another with agriculture—20 percent. It is really clearly the most important industry we have in this country. I think you very rightly point out the fact that it is different from any other business in that we cannot do without the end product. America needs to appreciate that more and support the effort that's going to be made this year to have a support structure for agriculture. That's why Government can't turn its back on agriculture. It shouldn't. We just can't let it.

Mr. STARR. I know in our small State we generate close to $600 million from agriculture, and have roughly better than 30,000 people, you know, directly and indirectly involved in the agricultural field. And it's vital to the State of Vermont to maintain a strong agriculture.

Senator COCHRAN. Thank you for being here. Senator Leahy.

Senator LEAHY. Mr. Chairman, thank you. I'm glad Representative Starr is here. Transportation is one of the issues I'm going to be discussing with him this year. The cost of transportation of Vermont's agricultural products is an important issue. Representative Starr is from the Northeast Kingdom, and as I had mentioned earlier today, Senator Cochran and I have been up in St. Johnsbury when we had the subartic hearing. When I mentioned being in St. Johnsbury he said: Oh, you were just at the tip of the Northeast Kingdom. Then I knew he was a true Vermonter.

It reminds me of one Vermonter who once referred to the New York Times and the Boston Globe as Southern newspapers. Massachusetts is one of those Southern States. Mr. Starr, I'm glad you're here—not just because of your position in the State legislature, which is important to us as Vermonters, but because I've walked county fairs with you up home. I think that I probably heard more about not only problems of agriculture but possible solutions in that day of just walking around with you than I might hear in several days of hearings in Washington.

I worry that we don't hear enough from people like that. That's one of the reasons we wanted to have a hearing here in Vermont. Agriculture is the backbone of the country. I think that has to be repeated often. Sometimes we have this view of agriculture as being a Norman Rockwell painting. Somebody walks out into a field, the Sun comes up and the whole world is happy—just like television ads. The farmer sits back in the afternoon luxuriating in all the money that comes in. But it's not that way. Farming is very, very hard work. But it's essential to our Nation and to the security of our Nation. I appreciate your comments, and I look forward to working with you during the spring, especially on this transportation question.

Senator COCHRAN. Congressman.

Congressman JEFFORDS. Thank you. Again I'll defer my questions until I'm sure we'll have a chance to do so when the House Committee is up here. But I would just commend you also for bringing to the attention of this audience, which probably doesn't need the attention to be brought, that the problems in the Midwest and, particularly in farming, are due to Government policies, not in spite of them, with the fence, hedgerow to hedgerow planting and the easy credit at the end of the seventies, and midsevenities, and the grain embargo which wiped the farmers markets away in 1980, then the EEC's tremendous subsidies when they got into competing with us by undue subsidies, and then the strong dollar are the crux of the problem—not the farmers. It's the Government policy that created the problems, and it's up to the Government to get those problems solved. Thank you very much. I would like to thank you Chairman Cochran for allowing me to be here—briefly, unfortunately—and Senator Leahy. I have to go on to other commitments, but I do deeply appreciate the opportunity to be with you, and I really appreciate you coming to Vermont.

Senator COCHRAN. Thank you very much, Congressman. You're very kind to say that, and we're glad you could be here. We're going to take a break right now, because of other commitments the Congressman has, and we'll resume in about 10 minutes.

RECESS

Senator COCHRAN. If the committee will come back to order, we will continue with our witnesses. Our next panel of witnesses can come forward now, and we will proceed with the hearing. Isadore Yandow, Rupert Chamberlin, Herbert Messenger, Fred Webster, will you please come forward?

Senator LEAHY. Dr. Webster is coming down with Mr. Rumler.

Senator COCHRAN. Messrs. Yandow, Chamberlin, and Messenger. If you will come forward. You may proceed. Mr. Yandow is president of St. Albans Co-op. We'll hear from you first.

STATEMENT OF ISADORE YANDOW, PRESIDENT, ST. ALBANS CO-OP, ALSO VICE PRESIDENT, GREEN MOUNTAIN FEDERATION

Mr. YANDOW. Thank you. Senator Leahy, Senator Cochran, it is a privilege to appear here before you today to offer testimony. Senator Leahy, we in Vermont are pleased that you are in a position to assist the dairy industry, and we thank you for your best assistance—past assistance. We are pleased that Senator Cochran has joined you in Vermont today. I own and operate a dairy farm in Swanton, VT, and have been farming for 45 years. I have witnessed many changes in the dairy industry over those years. I have sons and daughters who are also farming in this State. I presently serve as president of the St. Albans Co-op and am vice president of the Green Mountain Federation, which represents over 1,400 dairy farmers in Vermont and Massachusetts.

Over the years the industry has changed and some of those changes have caused farmers to exit the business. We are now facing changes in the industry and some of those proposed changes concern many in the industry. As a person who is concerned about the future of the industry, I desire a program which will provide some stability and long-term signal to farmers. My cooperative does not view the administration's proposal as such a signal and certainly does not consider the proposal to be in the best interests of the consumers or farmers. Their so-called market oriented dairy proposals do not recognize the capital entry requirements of farmers, the potential consequences to consumers, and the threat to the infrastructure of our and other rural States. I do not want to convey the impression that we support a program which allows continued high levels of Government purchases. My cooperative has assessed many of the programs which have been offered as solutions to our present problem. We believe that dairy industry in the United

States should be united around a plan. That means that any plan should not be so regional that it divides the dairy industry.

The members of the National Milk Producers Federation, of which my co-op is a member, agree on three points: continuation of the present price support program, adoption of a new parity or cost production formula, and use of a supply-demand adjuster.

My cooperative accepts those positions and asks that you incorporate those in items in the dairy position of the 1985 farm bill. However, should the supply/demand adjusters and the new cost of production formula still not adequately solve the problem, we would support a mandatory supply reduction program. We would propose that all dairy farmers be required to reduce production by 2 percent if purchases exceed 8 billion pounds.

Thank you for this opportunity to appear before you.

Senator COCHRAN. Thank you Mr. Yandow. We appreciate your being here. Rupert Chamberlin, president of the Vermont Farm Bureau.

STATEMENT OF RUPERT CHAMBERLIN, PRESIDENT, VERMONT FARM BUREAU

Mr. CHAMBERLIN. I am Rupert Chamberlin, the president of the Vermont Farm Bureau, also a 60-cow dairyman in Orleans County, Northeast Kingdom of Vermont. But also at this time I wish to share just a little bit of my time with Bob Simpson, here with me, who is our Vermont Farm Bureau dairy committee chairman, and he's going to bring up to date a few things that happened outside of the State of Vermont.

I do appreciate the opportunity to appear at this field hearing on the farm bill 1985 issues.

Vermont Farm Bureau consists of 4,400-plus farm families organized in all 14 counties of Vermont for the betterment of agriculture. The provisions of the farm bill 1985 will be very important to the future of Vermont agriculture. Even though Vermont is a small State in terms of agricultural production, the provisions of the dairy section will have a greater effect on Vermont than any other State across the United States. Ninety percent of Vermont's gross agricultural income comes from dairy production and dairy beef.

It is my contention that the Government's role in farm programs is to create a climate that gives a farmer the opportunity to produce for a market that relates to the supply and demand of that commodity. The Government should not attempt to develop programs that will establish a supplemental income for existence; except in national disasters. The experiences of the 1977 and 1981 farm bills and the updates to them have done very little to solve our problems for the long-range stability of the industry. I believe farmers agree it is time for a change in direction.

In an attempt to develop policies for the farm bill 1985, Vermont Farm Bureau, Green Mountain Federation, and Vermont Department of Agriculture have held eight daylong meetings with farm organization leaders throughout Vermont to discuss what alternatives are available as possible solutions to the dairy sector. Several Northeastern States have also participated in these discussions.

The alternatives have ranged from a free market system to a Government supply management concept. We have also participated with other organized efforts by other groups throughout the Northeast. These efforts, along with the delegate action at the county, State and national farm bureau levels, have developed the common goals that should become part of the farm bill 1985.

One, improve net farm income, the most important goal.

Two, recognize that all commodities are interrelated and that any change in supply, demand, or price of one affects the other.

Three, support a Dairy Price Support Program that will bring supplies down to demand levels on a timely basis.

Four, favor a system where the price support level is automatically adjusted according to the amounts of net dairy products purchased by the Federal Government and oppose any assessment by the Federal Government as part of any future program.

We believe that if these guidelines are followed, there will be no need for standby provisions for controlling production.

Five, support the use of an economic formula so long as it is fair to all producers across the country or a moving average of the previous 3 years on all milk market price for determining the price support.

The Secretary of Agriculture should have certain authority to administer program adjustments at 6-month intervals. Congress should establish these guidelines.

We believe that farmers are aware that they do have a responsibility to control their own destiny. These guidelines attempt to do this, both in the short run, as well as the long term.

We do believe that the current dairy legislation has had an effect on turning the current production around, but we also realize it will have an effect on increased production and Government purchases in the months ahead.

We do support the current national dairy promotion and research program provided it is approved by a producer referendum. We believe that the referendum in September will be in the affirmative, and will help to balance the supply and demand of dairy products.

I thank you for this opportunity to testify, and hope that you will give these guidelines serious consideration in developing the farm bill 1985 legislation.

We also hope that we may have input as we move ahead to the conclusion of farm legislation.

Thank you.

Senator COCHRAN. Thank you very much Mr. Chamberlin. We'll now hear from Herbert Messenger, who is on the State dairy committee of the Farm Bureau and also manages the Independent Dairyman's Association.

STATEMENT OF HERBERT MESSENGER, REPRESENTING THE INDEPENDENT DAIRYMAN'S COOPERATIVE ASSOCIATION

Mr. MESSENGER. I would like to express my appreciation to the Senate committee for allowing me this opportunity to have a few words.

My name is Herb Messenger. I live in New Haven, VT. I represent the Independent Dairyman's Cooperative Association in North Clarendon, VT. The Independent Co-op is a bargaining co-op operating under the provision of the Capper-Volsted Act. We have 125 producer members, and we sell our raw milk to four processing dealers in the northeast area. I am secretary treasurer of the association, and I am chairman of its executive committee.

I would like to state at this time that the independent dairymen do not have any confidence in the administration's plan for the 1985 farm bill. And we wish Congress to seek a plan that would be fair to the dairy producers and the consumers of this Nation.

We feel that world markets for dairy products will be almost nil in the coming years, and to plan on that assumption is unrealistic.

The nature of the dairy industry calls for a managed program due to production patterns, weather and purchase patterns. Fluid milk sales are relatively inelastic, and we should plan for a surplus of supplies if we are going to ensure that consumers have a reasonable price for our products and plan for an organized program for our basic food commodities.

Surpluses allow us to provide for seasonal variations also. Independent Dairyman's Association favor a modifying or updating of the existing programs that worked so well for us for a number of years. Our co-op supports the ad hoc committee's decisions—I won't go into them—but we support the continuation of the price support program; we support the concept of a supply and demand adjuster; for CCC purchases; and we support the establishment of a pricing index of a dairy specific formula. We also support the National Dairy Promotion Program, and we support freezing the support price at the $11.60 level until the CCC purchases are below the needs that the Government requires.

I am very distressed that the Government or the administration hasn't done an impact study on what the actions of their proposed farm bill will produce in the rural America. We think that agriculture contributes more income to the U.S. Treasury than they get back, and we see no reason why they shouldn't continue to support farm programs in some manner.

A lot of people point to the Canadian program as an ongoing and a good management program, but I have to indicate, too, in talking to Loren Hurd that the Canadian Government does contribute some moneys to keep that program in order.

Without any further ado, I would like to thank you again for the privilege of saying a few words.

Senator **Cochran**. Thank you Mr. Messenger. Thank you for your comments. Did you want to make your contribution now?

Mr. **Simpson**. Yes, I would.

Senator **Cochran**. Go ahead.

STATEMENT OF ROBERT A. SIMPSON, CHAIRMAN, VERMONT FARM BUREAU DAIRY COMMITTEE ALSO REPRESENTING AMERICAN FARM BUREAU DAIRY ADVISORY COMMITTEE

Mr. **Simpson**. Thank you Senator Cochran, Senator Leahy. My name is Bob Simpson. My wife and I own a dairy farm in Braintree, VT, and we milk 120 Holsteins. I serve as the chairman of the

Vermont Farm Bureau Dairy Committee, and I also represent the New England area on the American Farm Bureau Dairy Advisory Committee.

For the past year Farm Bureau and many other groups have been working together and within their own organizations to determine what kind of dairy program should be in the 1985 farm bill.

There are three major areas of agreement with all groups.

First, is the Price Support Program and the CCC purchase programs should continue.

Second, price supports—support prices should move up or down reflecting supply and demand and with net CCC purchases.

Third point, the current 15 Cent Per Hundred Promotion Program should be continued.

Dairymen across the Nation are acutely aware that the huge CCC purchases of the past several years threaten the future of the Price Support Program as well as each dairyman's farm operation. No longer are net CCC purchases over 5 billion pound levels acceptable to either the dairyman or the Government. The Diversion Program bought the dairyman time, but it failed to lower CCC purchases below the 5 billion pound level that was desired.

The American Farm Bureau board of directors at their March meeting adopted a plan submitted by the Dairy Advisory Committee for the pricing of milk to be included in the 1985 farm bill. This plan would use 90 percent of the simple average allmilk price received by farmers for each of the preceding 3 years for the support level for the 5 billion pounds of CCC purchase level. A higher or lower percentage of this price would be used as a support price depending on the projected level of CCC purchases. The plan also gives the Secretary the authority to lower the price 3 percent every 6 months starting April 1, 1986 if CCC purchases are projected to exceed the 8 billion pound level.

Had this plan been in effect for the last 15 years, dairymen would have received higher prices in the early 1970's, lower prices from 1978 through 1982, but again higher prices from 1983 on. Farm Bureau believes a pricing system with these three—with the 3-year average will work without creating huge CCC surpluses and the need for producer assessments.

On the subject of credit, Farm Bureau urges the development of programs to help young farmers get established in business. Farm Bureau urges FmHA to loan sufficient funds to carry out farming operations a full year or reject the loan. A grain farmer cannot make money if he only has enough money to plant half his crop.

We recommend that anyone who is unable to build up enough equity to get financing from other institutions after 10 years should not continue to be financed by FmHA.

Farm Bureau opposes any moratorium on FmHA loan foreclosures.

Personally, I am encouraged by the profitability of dairying in the past 6 months. With the milk to grain ratio favorable and drop in interest rates, money can be made in dairying.

I am, however, discouraged by the lack of action taken by Congress to deal with the deficit. Lowering the deficit will keep interest rates down and lower the value of the dollar, and those two things will help the American dairy farmer more than anything you can write in the 1985 farm bill.

Thank you again for giving me this opportunity to speak to you today.

[The following information from Mr. Simpson was received by the subcommittee:]

FARM BUREAU'S FARM BILL—1985, SUMMARY OF MAJOR DAIRY PROVISIONS, MARCH 6, 1985

AS ADOPTED BY THE AFBF BOARD OF DIRECTORS, MARCH 4-5

Milk shall be supported at such level equal to 90 percent of the simple average "all milk" price received by farmers for each of the preceding three years. This price level shall be automatically revised, effective October 1 of each of the years 1985 through 1989, except in the case of 1985, the price level revision shall occur on the first day of the month following enactment of the Agriculture Act of 1985. If the Secretary estimates that net government price support purchases of milk, or the products of milk, will be less than 5 billion pounds, or in excess of 5.99 billion pounds, he shall adjust the support price as determined in this subsection, according to the following scale:

Net Government purchases	Percent of support price	Projected adjusted support price (as of March 1985)
Less than 3	104	12.46
3.0 to 3.99	103	12.34
4.0 to 4.99	102	12.22
5.0 to 5.99	100	11.98
6.0 to 6.99	98	11.74
7.0 to 7.99	96	11.50
More than 8.0 [1]		

[1] If CCC purchases are projected to exceed 7.99 billion pounds milk equivalent during the next 12 months, the Secretary is given discretionary authority to adjust the support price by not more than 3 percent on April 1, 1986, and for any subsequent 6-month period.

Senator **COCHRAN**. Thank you all for being a part of this panel. We appreciate the contribution that you are making to the understanding of the problems that we face in dairying, and some of the choices that we have available to us for a new farm bill provision on dairying.

As you know, this is one of several opportunities that our committee is going to have to talk firsthand with those who are in the business—those who are directly affected by the dairy business—to get at the bottom of the problem and to try to do something to solve it.

I'm convinced that what we're doing is going to be helpful in writing a farm bill.

That reminds me of something they told me down in Mississippi. When a fellow from Washington says he's there to help you, you know he's telling you a lie. Well, I'm from Washington, and I'm here to try to help, and I'm telling the truth. But we do appreciate you for being here and helping with this information.

Of course, another group of dairy farmers is going to have lots of different opinions. We can see that here—that there are going to be some differences of opinions. But that doesn't mean we can't get together to form a consensus decision and try to help make it work. It's like this diversion: I know it was not a perfect solution and everybody didn't participate in it, but there has been some participation. There has been some reduction in production. There's been a reduction in Government costs of the Dairy Program.

Nobody knows what's going to happen next. There's a suggestion that there's been a buildup of heifers on the farms, and as soon as this Diversion Program is over, then we're going to see a return to massive production. I don't know whether we will or not, but we're going to have to work to figure out how to solve the problems, just to keep the Government costs under control as a part of the deficit reduction effort. It's a big job, and we're glad you're here to help us understand it better. Thank you all.

Mr. MESSENGER. May I say one other thing? One of the things I failed to mention was a Standby Program. And you'll probably hear a lot of discussion about a Standby Program. In discussing it with members of our executive committee, as with the Compromise Program, there was a lot of diverse opinion, and so I failed to mention that fact while we're talking.

However, we do feel that if Congress, in writing up the farm bill, and the Senate in writing up the farm bill, feels that a Standby Program is necessary, that we ought to give you that flexibility to put some kind of a program in the case, if something does come along that we can't foresee.

Senator LEAHY. I think that's a good point to bring up. It is one of the things that has not been discussed very much. We've read a great deal about the 4-year farm bill, and certainly we've all given brilliant speeches on it. We've had a number of hearings already in Washington on needed provisions.

In fact, last week, when I was here in Vermont, I had to go back to Washington early because of one of those agriculture committee hearings. I think that a 4-year farm bill may not be possible to enact this year. I think that is unfortunate. I think there's a strong bipartisan feeling in the Senate and the House to get a farm bill. But, with some of the economic pressures, such as the deficit, it's going to be hard to enact a 4-year farm bill.

I would love to see a solid 4-year farm program that would give the farmers some stability.

I have a question for Mr. Yandow. We were talking about means of reducing farmers' costs. One of the things that's come up in Washington is the idea of a freeze of the support level. Would you support a freeze of the support level at either $11.60 or $11.80 for a long as 2 years?

Mr. YANDOW. I believe 2 years is quite a long time to freeze it for that.

Senator LEAHY. I know it is.

Mr. YANDOW. Maybe for 1 year. But again, it doesn't give the farmers a chance to look ahead very far when you know what running of a farm is and breeding cattle. It takes a year before you get things going.

Senator LEAHY. Or longer.

Mr. YANDOW. Or longer, that's right. But again, we don't have any stability saying that we can do these things.

Senator LEAHY. But what if the choice came to a freeze at say $11.60 or the $11.80 level?

Mr. YANDOW. I wouldn't approve that.

Senator LEAHY. Would you prefer a 1-year or a 2-year freeze of the support level?

Mr. YANDOW. Yes. It certainly could be changed after that 1 year.

Senator LEAHY. What about you Mr. Messenger?

Mr. MESSENGER. I think we could support that.

Senator LEAHY. Mr. Chamberlin, what about the Farm Bureau?

Mr. CHAMBERLIN. I think we have a problem doing that, for the simple reason we have been through the policymaking process and we're at that point where we believe we should go with a long-range program if we're going to have any stability in the dairy industry, and I'm sure that if we were going to support anything like that, it would have to be at least at $11.60 because I think you have to have some responsive measure here, and I think this is the reason why we're against a standby provision, and we need to have faith in the level that we've outlined here. And we have faith enough that we're willing to carry forth on that.

Senator LEAHY. During my trips around Vermont during the last couple of months, I've talked with farmers and large groups, and small groups. When I feel I've talked too long there's one question I ask because it gets everybody going for about 20 minutes afterward. The question concerns a quota program; who's for it and who's against it? We did this one night when it had just begun to snow. By the time the answer came back, we had 3 feet of snow outside the place.

Senator COCHRAN. Let's not do that.

Senator LEAHY. Let's not do that here. We both have to be back in Washington later this afternoon, because the debate starts on the MX missile. Tell me, Mr. Chamberlin, what do you think about a quota system? Would it work? Could it work? Should it work?

Mr. CHAMBERLIN. I guess I would answer it in this way. I think we can charter a course. We can either have more government or less government. It we go the quota route, it distinctly means more government. And after getting Mr. Herd in here and listening to the Ontario program, I think all the people that were at that meeting that day, after giving a lot of questioning to him, more or less said that we couldn't do it. And I think he made the comment that probably the American farmer is not ready for that because things aren't bad enough. And he made that as a remark. So I feel that it's a way, if we decide to go the supply management route. But I think if we go this way, we have to plot the course and go. I guess our feeling is that we think as individuals. The American way is not for a supply management concept, and we should work in that light.

Senator LEAHY. Ron Allbee briefed me on that meeting with Mr. Herd. I got the impression that it was a pretty thorough and lively ongoing discussion. Mr. Messenger, what do you think?

Mr. MESSENGER. About the Ontario Program?

Senator LEAHY. About any kind of a program.

Mr. MESSENGER. I tend to veer away from it for the same reasons Rupert does, and I think that it's not in the interest of consumers in the industry to have a supply management quota type system. It stifles managing individual farms. I mean, every farm is tailor made just a little different than the other, and I think they ought to have flexibility enough to seek their own solutions on each farm.

Senator LEAHY. Mr. Yandow?

Mr. YANDOW. I would have to go along with what they're saying. Because you've got to have a little flexibility, and I don't believe this quota system would do that, from what experiences they've had in Canada.

Senator LEAHY. Thank you, Mr. Chairman.

Senator COCHRAN. Thank you all. You've done a good job. We appreciate your being here to help us in this way. Our next panel of witnesses includes John Hall, Douglas Nelson, David Dickinson, and Dorothy Walka. If all of you would come forward please. Mr. Hall is an independent farmer in East Montpelier. Mr. Nelson, one of the larger dairy farmers in Vermont. Mr. Dickinson farms in Rutland County. Mrs. Walka is from Orange County, VT. Mr. Hall, you may lead off. Thank you.

STATEMENT OF JOHN HALL, FARMER, EAST MONTPELIER, VT

Mr. HALL. I want to thank Senator Cochran and Senator Leahy for allowing me to come before you today. I might say as an opening statement, so you can have an appreciation from my position, my wife and I started farming in 1965. We'd just had a new President, President Kennedy, and his administration felt it was time to get young people back on the farm. And FmHA regional offices opened up, and the loan supervisors became, we might think, more liberal, and a long-term and long-time dream of both my wife and mine made it possible for us to begin on a very small amount of capital.

Today we are still operating a 500-acre dairy farm. We started with a 200-acre dairy farm with 33 cows. We now milk 85 cows and have 150 head of registered Holstein cattle. My son and son-in-law help us on the farm, and we enjoy our life, and we enjoy our work, and we've raised four children. They all have received or are in the process of receiving a secondary education—education beyond secondary school. And they all have a keen interest in agriculture.

We're dedicated to our profession, devoted to doing our very best, and have insulated ourselves as much as possible, through management, against economic tough times. We have done this by working toward growing and harvesting excellent roughage, mainly corn silage and alfalfa haylage. Through breeding and managing a quality herd of cattle, we completed 1984 with just under a 20,000-pound herd average.

Having this background information, I would like to make two points. The current dairy policy, in my opinion, is headed toward eliminating dairy farms and lowering production. And I think this policy appears to me to be right on target. With the present milk price, dairy farms are headed toward disaster.

In February 1981, we received $14.46 per hundred. And this year in February we received $13.25 per hundred. That's a drop of $1.21 less than we received 4 years ago.

In 1984 our financial statement showed a $6,000 loss. Compare this figure with 1982 when we showed a gain of $28,000. We simply do not have the reserve to continue to absorb such losses.

With a 39-percent debt to asset ratio, we are reluctant to continue to borrow to absorb deficits.

Senator LEAHY. What was that ratio?

Mr. HALL. 39 percent. This year so far looks to be somewhat better to us, due only to the plight of the Midwest grain farmer. Our grain prices are lower, and we consider 20 to 30 percent as a working part of our operating income. In other words, the cost of grain to be 20 to 30 percent of our gross. And this year it is right around 20 percent, which allows us more return than we got last year.

My second point that I would like to make is that we need a fair stable price in order to maintain a healthy dairy economy; preferable a price established through a cost of production formula. Supply, I feel, must be controlled through farmer finance programs; diversion programs, dairy cattle control programs, or through quotas.

Ideally, control of the U.S. milk supply should be a function, I think, of a National Dairy Board of Farmers, such as we have now with the responsibility of advertising. Such a provision in the 1985 farm bill would protect price and supply from the political drift and lend greatly to a long-term farm stability.

I think we can all look back over a period of years and see some excesses that have occurred. I can recall visiting with former commissioner of agriculture Elmer Towne in some of the early hearings that I went to in regard to raising the support. He made the point at that time, I believe that was in the early seventies, that we really can't afford to increase that support; that at some future time down the road we would really be sorry that the price was as high as it was. And then I think we can recall just in the election year, not too many years ago, when the support was raised just before the election.

I think those are just two examples of some of the excesses that have occurred that have caused us our problems today; and that if our dairy policy was protected through a National Dairy Board, not subject to the political whims of the time, that this would serve us well.

That concludes my testimony.

Senator COCHRAN. Thank you very much Mr. Hall. Douglas Nelson, you are next.

STATEMENT OF DOUGLAS NELSON, PRESIDENT, NELSON FARMS, INC., DERBY LINE, VT

Mr. NELSON. Senator Cochran and Senator Leahy, I want to thank you very much for coming to Vermont and giving us a chance to express ourselves.

My name is Douglas Nelson. I reside in Derby Line, VT. I am the president of Nelson Farms, Inc. It's a dairy enterprise located primarily in Orleans County. This is a family corporation with my wife and two sons playing very active roles. We crop about 2,500 acres with over 3,000 head of dairy cattle.

In 1984 we marketed in excess of 20 million pounds of milk. Cull cows sold for beef numbered 380, and male calves sold totaled 702. Now, this is equal to approximately 1 percent of Vermont's total milk sales in Federal order one or to over 30 average Vermont farms. We do this with 27 employees and 13 tractors. Thirty of Vermont's average farms would probably employ 75 people and operate 90 tractors. This is, of course, the reason many farms are becoming larger; to obtain more production per man with less of the already too expensive farm equipment.

Our sons and their families should no longer be willing to accept the 7-day workweek and the 16- and the 18-hour days and no vacations. They should not tolerate a living that's substandard to their friends and neighbors for 10 years until they've made it over the hump. I believe larger farms on the whole can jusitfy the shorter workweek, can justify more leisure time. But the problem is, how are we going to ensure a fair return for our labor and our investment?

Right now we at Nelson Farms have over 900 pregnant heifers, cattle that have never milked before but will come on line this year. With these and a comparatively modest investment, compared to our investment at present, we can increase our share of Vermont milk in Federal order one to approximately 2 percent.

I recently heard of one farm in the Southwest that is contemplating expanding to 20,000 cows. This number of cows, coupled with their irrigated alfalfa, might equal 20 percent of Vermont's total production. Alfalfa is probably as good for cows as milk is for babies. With no winter kill, no threat of rain at harvest and their climate, seven or eight cuttings of this miracle crop per year are common. This consistent, very high quality roughage, combined with very low investments in buildings, and eager, affordable labor from Mexico make for a cost of production much lower than ours in the Northeast.

Therefore, I believe we will receive heavy pressure on our markets from these areas. In January of this year, production in the second greatest dairy State increased 7 percent over January of last year. This State is California. I believe these large dairies will become more and more common. We've seen it in the chicken and beef industries, and now we're seeing it in hogs.

In order for a dairy to get to this size, a person has to obtain the financing, the real property, facilities, management, employees, and a feed supply. He has to be concerned with all these items, but he doesn't have to worry about the No. 1 most important factor, the marketing of his product. This makes no sense at all to me.

Now in all the other businesses I know, the only reason for their being is the ability to market their product. We can produce and produce, and Uncle Sam is going to buy it.

I'm not against larger farms. If they provide a better standard of life, I'm all for them. This is the American way, and I surely want to see it remain.

But these new units are displacing ongoing operations. Several are financed by off-farm people seeking shelter for large profits. This kind of agriculture has accelerated until large volumes of dairy products are the direct result. As the Government guarantees to purchase and prices decline, ongoing operations falter, farm support businesses falter, rural communities suffer jobs, and the tax base declines.

Our parents saw sheep leave Vermont. We saw the chickens leave Maine. And I believe the potential now exists for a large exodus of dairy facilities in the Northeast; an exodus that could eliminate our class two supplies and class two facilities. One could even argue that the emergency food supply in case of a national catastrophy might be jeopardized as this supply pattern shifts.

I think the answers are very complicated, and they certainly have to be very carefully scrutinized by very dedicated people. But I would like to see you people that hold the cards direct a real good look at supply management. It would seem to me that the only way for us to ensure the supply, our way of life, and a fair rate of return for our labor and investment, may be this route.

I believe this supply management effort could be and should be controlled within the industry. By this I mean a dairy board that buys and sells the surplus and controls a quota—a base system that dairymen can purchase or market as they increase or scale down their operations. This could result in a no net cost dairy program. Some countries have been able to control their supply to within one-half of 1 percent of the demand. To me this certainly is a remarkable success. A system such as this may also enhance the quality of our product as well as the genetic base of our national breeding herd; the latter by an increase in the rate of culling.

To my way of thinking, through supply management our rural areas would be able to depend on a more prosperous agricultural base and a very controversial Government expense could be eliminated.

Thank you.

Senator COCHRAN. Thank you very much Mr. Nelson. Our next witness is David Dickinson.

STATEMENT OF DAVID DICKINSON, DAIRY FARMER, RUTLAND, VT

Mr. DICKINSON. Thank you for the opportunity to testify this morning. I am here today to urge you to fashion a farm bill that incorporates the sound market-oriented principles of supply management. More specifically, I believe the bill should include a milk diversion plan, a standby diversion plan, or a base premium pricing system which structured around the concept of farm bases for production and a price incentive to maintain the base production.

In the face of such compelling factual testimony to the success of the Milk Diversion Program, it is difficult to understand the reason we are not more persistent in pursuing its continuation in some for in the 1985 farm bill.

The Milk Diversion Program was historic in the results that it achieved, and because it approached the dairy farmers' dilemma in a fundamentally new and constructive manner. The facts are that the program was completely self-financed by dairy farmers, that it was effective in saving taxpayers over $1 billion through lower levels of purchases by the CCC, and that it reversed the trend of overproduction that had existed for the last 5 years. This last benefit is very significant, since no one actually knows where the surplus accumulation would have peaked out without the Diversion Program.

At the end of 1983, U.S. milk production had been up every month over the previous year for almost 5 straight years. In 1984, production was down in every month compared to the previous year. This more nearly balanced supply of milk has precipitated an increase in price to the dairy farm since the M-W series, upon which the dairyman is paid, has come into closer alignment with the support price.

In this market, the price during the last 5 months has actually been for 4 cents a hundredweight to 32 cents a hundredweight above last year's prices; this, despite the reduction in last year's support price. For all of 1984 the average net price was only 23 cents per hundredweight lower than 1983's average net price.

At the same time the farmer was experiencing a relative increase in his prices, the price to consumers was not increased. In fact, retail milk prices during 1984 were below those of 4 years earlier.

In addition, the milk diversion concept maintains a reserve capacity of milk production which would be instrumental in avoiding milk shortages that have occurred as recently as 1974.

What, then, are the objections? One obvious problem is that those who have the basic interest in maintaining a surplus condition will apply pressure to return the market to a surplus status by lowering prices. History has demonstrated and economists have stated that in the short run, when support prices are decreased, the supply of milk increases. The answer to the surplus manufacturer's problem should not be found through lower incomes for dairy farmers but through redesign of the pricing structure which eliminates the incentive to establish a surplus.

Some have cited lack of farmer support for the diversion concept. However, dairymen do respond to price, and it is my opinion that support has been increasing and will continue to increase as they begin to realize it is better to invest 50 cents if one receives back a 27-cent increase in price than to accept a $1 reduction in the price with no opportunity of recovery.

Another objection has been that some parts of the country are not in a surplus condition. It would seem, therefore, that some mechanism should be added to make provisions for this problem. It would seem, therefore, that some mechanism should be added to make provisions for this problem. It is my understanding that the National Milk Producers Federation has been exploring some options in this regard.

Undoubtedly, the greatest objection to the diversion plan comes from the administration; not because the program is a budget buster, but because the administration apparently feels the concept is not ideologically pure. I suggest that this is the ultimate challenge to the leadership, courage, and bargaining abilities of our elected Senators and Representatives to find bargaining chips that can be effective in convincing the administration of accepting the notion of supply management as an inevitable solution to the problems of the dairy farmer.

It is a curious fact that all other sectors of our economy do market research and produce for the market demand thereby controlling supply but for dairy farmers this idea is deemed unacceptable.

We should, at the very least, establish a standby diversion plan that would automatically be instructed if the purchases by the CCC should again rise above a certain level. Certainly the purported goal of the administration was to help the dairy program by reducing CCC purchases. If lower prices are counterproductive in this regard, then it would only seem rational to use a plan that has accomplished this goal in the past.

The milk diversion plan has proved that it is workable and practical. The mechanisms for making assessments and returning payments are already in place. If, however, a diversion plan is not included in the 1985 farm bill, an alternative might be a base premium plan. Under this plan dairy farmers who maintained a specified base production would receive a premium while those dairymen who produce beyond their base level will receive a reduced market price.

The amount of a farmer's base would be related to the conditions of oversupply within the market. This alternative could be financed in much the same way as the milk diversion program and would be conducted on a voluntary basis. The base premium plan could be administered either on a national or regional level.

In the absence of any type of supply control, the future for the average dairy farmer is indeed dismal. Production costs during the 1985–1986 period have been projected to increase by 3 percent to 6 percent.

In addition, if we are subjected to increasingly lower support prices, there will very likely be increases in production. Further complicating the surplus problem will be technological advances in the form of embryo transplants and growth hormones which will boost production.

As many have predicted, if we choose the exploratory price production route, we will go out of business and nearly all experience financial hardship until at some point we feel that the social costs and consequences upon the rural economy are too great. Unfortunately, for many that point will be too late.

Senator COCHRAN. Thank you very much Mr. Dickinson.

[The following material was received from Mr. Dickinson:]

BASE PREMIUM PLAN

1. Assessments from 25 cents to 75 cents on all milk within the region to be paid to the Central Pool (CCC on a national level).
2. Amount of assessments contingent upon the level of over-production within the region. Greater over-production would require a larger Central Pool to provide a greater incentive for reduction.
3. Individual could contract with Central Authority (CCC) to maintain a specified level of base production. For example: 95 percent of a 1982–1983 base. Levels of reduction and assessment to be on a sliding scale. All participants to reduce by same percentage.
4. Individual producers would be eligible for market premium if he maintained specified base level or less.
5. Level of premiums to be established by dividing the Central Pool total among the participants on a per cwt. basis. For example: 50 cents per cwt. on 100 percent of the milk assessment would be divided among let us say a 25 percent participation (of the total milk) which would equal a $2 per cwt. premium.
6. Premiums could be paid through ASCS County offices.
7. Bases could be sold.
8. Since premiums are paid on milk produced and not for milk that is not produced, those who had no production would receive no premium.
9. Premium levels to be sufficient to bring M–W series price up to the level of the announced support price.

Senator COCHRAN. Next we have Dorothy Walka.

STATEMENT OF DOROTHY WALKA, MEADOWVIEW FARM, BARRE, VT

Mrs. WALKA. Senator Leahy, Mr. Cochran, farmer friends, concerned citizens:

The focus of my remarks will exclude tax loss corporate farms as well as agricultural syndicates whose existence is dependent of factors other than those discussed here. My message to you addresses the problems of the commercial farmer and family whose primary means of income is from the farm they work.

Today, farmers are starving while Dave Stockman talks about their greed.

Today, farms are on the verge of collapse as Dave Stockman discusses a dynamic society.

Today, Ag-Secretary Block and the USDA talk about a free market, international trade, the strong dollar. The implication is that the farmer is noncompetitive. However, due to factors in the world market beyond his control, he is producing goods at below cost. As for the dairyman, he is the political pawn extraordinaire. With all the world starvation, his milk and cheese barely leave the shore. Never is the American farmer praised for the fact that his products are the principal export. Never is the American farmer told that the balance of trade deficit would be more devastating if it weren't for what he grows from the earth.

Historically, an economy prospers in direct relation to the health and well-being of the agricultural community. Farm products are an indigenous, renewable, natural resource and is controllable. What is the point of our Government reducing supposedly surplus domestic production only to allow increased imports of like products? This is one of the squeezes on agriculture that the politicians have made the consumer an unwitting partner to.

For instance, did you know that 25 percent of our apple concentrate is imported. Why worry about the Vermont apple grower.

Fifty percent of orange concentrate is imported from Brazil. Why worry about the devasted Florida farmer; 10 to 11 percent of our beef comes from South American and is purchased directly by the U.S. Government at above current beef market prices. No need to worry about the ranchers' and the dairymen's cull cows.

Tons of hogs are imported from Canada. We have lost 20 percent of our hog producers; and are estimated to lose another 20 percent by 1987. Does this kind of manipulative behavior enhance our national security or domestic life support systems?

Seventy percent of casein, the basis of ice cream, is imported from New Zealand; the balance comes from Europe. It seems that American businesses could produce a good share of this product. And the food continues to be cheap and plentiful. But for how long?

I'd like to read to you a section of a letter written by friends of Dorothy Walka by Ilene Silverday, chief cow in charge of milk production and secretary to the board of directors at Meadowview Farm. She writes:

> Since I'm a cow, I'll concentrate on that which I know best, dairying, but all our farm neighbors across the Nation are facing the same problems. All farmers represent a mere 2 percent of the population but grow all the food for our country as well as for some portion of our neighboring Nation's food supply. Today, we enlist your

help so that we can make healthy again the most efficient agricultural system in the world. Please keep in mind that 20 percent of you enjoy employment either directly—make cheese, bread—or indirectly—make containers—from the products we produce. The consumer can pay what the product is really worth or the Government must take up the slack. Neither one is happening. The result will be the demise of farmers and eventually higher than necessary cost to the consumer. Unfortunately, I can not cover everything here but with the farm bill of 1985 coming up, it is important that you know that those who will decide our fate know little or nothing about us and, what is worse, apparently care less. In addition, we are at the mercy of people running large corporations, large cooperatives, large banks, adverse tax programs. Today the farming industry is more depressed than it was during the Great Depression of the 1930's.

This past year in Vermont alone we lost between 5 and 6 percent or about 150 farms.

Here's an ad that has been run in several Vermont newspapers. It reads:

IN MEMORIAM

In loving memory of the senseless financial and emotional death of more than 100 Vermont farm families and to the demise of 100 barns, the displacement to parts unknown of 5,000 cows, the breakup or breakdown of 20,000 acres resulting in an economic loss to the State of Vermont of at least $9 million.

All in the Year of our Lord, 1984.

This ad was paid for by the Lamoille County Milk Promotion Committee.

To add to the enormity of this dilemma, agriculture is a basic renewable wealth. Our lack of health affects all other industries and ultimately all of you. Rural America is still capable of feeding the Nation. The potential demise of rural America and the reality of the death of rural Ethiopia are the true reasons why so much hunger and poverty exist here and abroad.

However, to let you know more about us at Meadowview, please know that we have been holding our own although the future appears to be more bleak than the past. Unless there is a ground swell of social conscience from urban and surburban American to keep us in the business we know best—farming—you and your children's health will be affected.

Meanwhile, each of you receives benefits from our assets. You enjoy the beauty of the farm for visual aesthetics, for recreation and for nutrition. We are pleased and honored to offer these gifts and products to you but need your help to continue.

Sincerely, Ilene.

Regularly, out of the media come these statistics. The economy has never been better. The unemployment rate has never been lower. Housing starts are improving. The MX missile and Star Wars Program are approaching reality. What is being over looked is our eroding domestic ability to produce food. We and the farmer have never been more in jeopardy.

Being at the tail end of a large scheme of manipulation, the alternatives for correcting the agricultural holocaust we are enduring are few. You, who are our representatives in the Federal Congress, and your predecessors, have built an international trading house of cards which could lead to our agricultural collapse, burying us all in the debris. To date you have offered Band-Aid solutions—none of which have worked nor ever will work until the facts are addressed.

The farmer does not need investment tax credits, does not need loans to increase his debts, does not need to get paid for nonproduction. What he needs is positive cash flow. What he needs is cost of production based on regional differences plus a reasonable return on his investment.

As Ilene said earlier, the consumer can pay for what the product is really worth or this Government must take up the slack. One or the other has to happen.

I put it to you, Senators, the continued vitality and validity of commercial scale agriculture in the United States is in your hands.

Thank you.

Senator COCHRAN. In the proposal that the administration has made to convert from a support-type program to a direct payment, the dairy industry would be treated more like a commodity industry, like wheat, corn, grain, or cotton farmers. Is this a workable solution in your opinion, Mr. Hall—to convert from a program where the Government buys the product to a program where the Government would support the dairy industry by direct payments to farmers? What's your reaction to that kind of change?

Mr. HALL. You're talking about target pricing?

Senator COCHRAN. That's correct. It's the same kind of concept as setting a target price and then making a deficiency payment. It would make a payment to the farmer of any deficiency between the market price—what he can get—and the target price.

Mr. HALL. I guess it depends on how high the target price is.

Senator COCHRAN. High enough so that it would be real good.

Mr. HALL. Yes, I guess it would work, if the price was high enough. But I still believe there has to be, for stability, for long-term stability, there has to be production control of some kind; supply control. We haven't had it, and we've seen large swings, and I think, to appeal to the younger generation, to continue on, there has to be—they have to see the evidence of some income there, which we aren't having right now.

Senator COCHRAN. Senator Leahy?

Senator LEAHY. Thank you Mr. Chairman. I could not help but think, when Mrs. Walka was speaking, about the amount of imports we have here. I've taken that ad, incidentally, and shown it to the people in Washington and other places when it first ran. It was sent down from my Vermont office that day on the telecopier. I think it's well worth the effort. We don't emphasize enough how much our national security is connected to our farming program.

Now all you have to do is think back to the early seventies when we had huge lines at gas stations because we had to import so much of our energy. As a result, much of our foreign policy, much of our national and international economic policy, and much of our defense policy has developed over the last decade because of those lines and because we knew that, for decades to come, a group of countries could join together and have a serious impact on the energy needs of this Nation.

We've had to change a lot of our economic and military and foreign policy. If other nations could determine what kind of food we get, when we get it, how we get it, and at what price, and if we get it at all, we could encounter another and a larger crisis.

If we continue to make it impossible for American farmers to compete on a level playing field, that is, to be able to compete fairly with other countries, and if we make it economically impossible in this country to be involved in agriculture, then we'll import food. But, then, by the end of this century, we could be in a position where other countries will determine what the price of our food is going to be, and whether we get it at all. I don't have to tell Vermonters who are here what that could do to our national security; or what that could do to our foreign policy or economic policy.

We'll hear an awful lot of people stand up and say: My God! How did we ever get in this fix; what can we do to get out of it?

We could have to change our foreign aid program, our foreign policy, economic policy and everything else to reflect agricultural dependence. I think that the time to make sure that this dependence doesn't happen is today. After 200 years, it would be a shame to see a proud agrarian philosophy and tradition in this country change.

Mr. Hall, I know about where your farm is up in east Montpelier. As I told somebody the other day, having been born and raised in Montpelier, I'm supposed to know everything that's happening around here. In fact, my mother came to this hearing today to make sure that, if there is anything I miss, my mother will set me straight before we leave. Incidentally, do you do sugaring on your farm?

Mr. HALL. No, we don't.

Senator LEAHY. Sugaring should be going on just about now. Actually some people were doing some sugaring just a couple weeks ago.

Mr. HALL. Oh, yes.

Senator LEAHY. Do you believe that U.S. farmers and farm organizations would support these kind of supply control programs you've talked about?

Mr. HALL. I really don't have a basis to answer that. Some would, I'm sure. I guess I've developed my feeling over watching what's happened in Canada, and then watching what's happened with the Diversion Program. True, it wasn't totally successful, but yet it did show us that we could control production; the farmers, the taxpayers wouldn't have to burden the cost of it, and I just see a brighter future in that, going that path, than to just let us find a level through the market. I think that's too painful.

Senator LEAHY. Mr. Nelson, hearing you talk about the size of your farm and hearing about this one in the South, I assume you're talking about an area around Texas, with the 20,000 cows. What effects will the bovine growth hormones have on farmers like yourself? I have a vision of a huge super cow; one cow producing for the Northeast.

Mr. NELSON. I haven't even dared to analyze that one. I know they've got some tremendous results. I concur with John. I think if the farmers had a base, and even if you paid them $2 a hundred for over base, I think you would find that the over base would disappear and the farmers would make more profit with their 90 percent than they're currently getting now with a hundred percent of what they're making. I think they could eliminate a lot of the more unproductive factors such as margin cows and so on.

Senator LEAHY. Thank you. Mr. Dickinson, if you had to predict what the dairy industry would be like 10 years from now in Vermont, would you dare make that prediction?

Mr. DICKINSON. Which prediction are you referring to?

Senator LEAHY. What would be——

Mr. DICKINSON. Oh what would be my prediction? I would predict farmers would be forced into a supply management concept of one form or another. I think there's two basic directions. One is a voluntary approach with an incentive pay. And the other is a mandatory type of program which is like a quota system where there are penalties imposed. I think dairy farmers will recognize there really isn't a conflict between the idea of using the market and using a production control thing like milk diversion because it affects the market. It has actually raised the M-W series, which is our market price. The Diversion Program, by limiting the supply, has raised that price, so it is a market-oriented approach.

Senator **LEAHY**. Mrs. Walka, would you agree with that?

Mrs. **WALKA**. It appears to me that, something is wrong with the market as we see it in New England. We're not supplying our market. There is a shortage of milk, as I understand it, in New York State. And still the price doesn't move. Now this is supposedly a free enterprise type situation. If the supply goes down, and the demand goes up; the supply goes down, then the price has got to increase. And as John pointed out, we're getting paid less this year than we were last year. Our transportation and taxes are just skyrocketing, which comes out of—our pockets before we even start paying our bills. I've agonized over this and it comes down to one thing. The farmer has got to get a cost of production price. If it comes about by containing supply and demand, then fine; that's the way it's to be done. If it comes about by reducing production on a farm per farm basis, fine; that's the way it's got to be done. If it comes about by using a quota system as they do in Canada, I'd have no quarrel with that. Everything has to go around the fact that the farmer has got to have at least 90 percent of parity or 90 percent of cost of production. He doesn't have to buy a tractor this year, but he's got to be able to cover his bills.

Senator **LEAHY**. Thank you.

Senator **COCHRAN**. Thank you very much for being an excellent panel of witnesses. We appreciate your being here. Our next group of witnesses includes Robert Foster from Middlebury, VT; Leo Connor, Bridport; and Dr. Richard Stammer, who is with Agri-Mark. Mr. Foster, you may be our first witness.

STATEMENT OF ROBERT FOSTER, FARMER, MIDDLEBURY, VT, ALSO REGIONAL DIRECTOR OF AGRI-MARK

Mr. **FOSTER**. Thank you very much. Senator Cochran, Senator Leahy, I would like to express my sincere appreciation, as well as that of my cooperative Agri-Mark, for bringing your subcommittee to Montpelier for field hearings on the 1985 farm bill legislation. I would like to thank Senator Leahy specifically for encouraging Vermont farmers to participate in this all important piece of legislation.

I am Robert Foster. I, together with my father, two uncles, a brother, and two cousins, operate a family farm in Middlebury, VT. Our farm was started by my great-grandfather in the 1920's. By working together we have been able to take advantage of some of the economies of scale, while at the same time providing an environment for family participation. We milk approximately 360 cows, grow as much of our own forage as possible, raise our own replacements, sell some hay, timber, sap for maple syrup, and sell electrical power from our waste management system to the local utility.

I am also a director of region No. 12 of Agri-Mark, a 3,200-member regional milk marketing cooperative based in New England, with 1,100 producer members in Vermont. As part of my duties as director, I am directly responsible to some 265 members in Addison, Chittenden, and Rutland Counties in Vermont, and in Essex County in New York, which makes up my region. Their assets aggregate over $140 million, with annual gross sales of over $55 million on over a third of a billion pounds of milk per year marketed through Agri-Mark.

Obviously the 1985 farm bill, and particularly the provisions pertaining directly to dairying, are of immense concern to me and my cooperative.

Agri-Mark's board policy is as follows:

No. 1, Agri-Mark feels that it is absolutely essential to both the consumers and producers of milk and dairy products that the support program be maintained through a CCC purchase program to provide commodities for such programs as Public Law 480 and child nutrition to assure an abundance of dairy products to the consumer.

No. 2, Agri-Mark supports a unified national effort, through the National Milk Producers Federation to develop and implement a dairy specific parity economic formula which would replace the outdated parity concept with a formula tied to the actual costs of production. This in itself would save the Government millions of dollars.

No. 3, Agri-Mark believes that the dairy specific economic formula should be coupled with supply and demand adjusters as proposed by NMPF. These would give the Secretary of Agriculture both discretionary and mandatory power to adjust the formula both up and down to take into account supply and demand variations and Government purchases. The combination of these two items will prevent the runaway situation like we have experienced in the last 3 years.

No. 4, Agri-Mark is trying, through our congressional delegation, through our representation at NMPF, and by polling our members, to seek a consensus as to the need for and type of standby provisions if there is a drastic change in market conditions. National unity on the issue is extremely important. In addition, Congress needs some flexibility to help deal with these issues. If a national consensus cannot be determined, Agri-Mark will have to advocate a regional position or delay action until a crisis occurs. However, I think the important point is that if the supply and demand adjuster and dairy specific price formula work, as they are planned, Agri-Mark sees no need for a standby program.

As you know, the current legislation allows the Secretary of Agriculture to drop the support price to $11.60 on July 1, 1985. We are told that with the present market condition this would translate into a blend price at zone 21 of $13 a hundredweight. Assuming the costs would remain the same, which I admit they probably will not—they will probably increase—this would mean on our own farm, which is relatively efficient, a reduction in cash flow of some $48,000 based on last year's numbers. This reduction would have been used for debt service, capital purchase of replacement equipment for that which has depreciated and worn out and family living expenses. While we could meet our current expenses, we in actuality would be living even more heavily off our depreciation.

Based on 1984 Agrifax summaries, farmers in the Champlain Valley with a $13 price would have less than 40 percent of their depreciation available for debt service and replacement of depreciated equipment and buildings, compared to almost 80 percent available only last year. This would be a major change in financial position for a large number of farms. Several years at this level would mean that as equipment and buildings need replacing, producers would be drawing down their equity, increasing their debt load until they would be unable to find any more capital to borrow and would have to go out of business.

I feel it is absolutely essential that this adjustment to $11.60 be the floor. Further downward adjustments, as proposed by the administration, would be precipitous, stampeding farmers out of business.

Many farmers respond to the signals given—have responded to the signals given by Government and have heavily capitalized and expanded their operations, only to see those signals changed overnight. Dairying, as many of you know, is a long-term business taking 2 or 3 years to adjust and shift production. Many are just now facing the realities of the price drop that occurred several years ago.

The administration's plan would cause several seasonal swings in price, from very low in the spring to high in the fall. Consumer prices would remain stable at high levels as we saw when the support price dropped last December. It will certainly be to the advantage of producers who ship to cooperatives such as St. Albans, Cabot, or Agri-Mark who have had seasonal incentive plans in place which have encouraged them to produce for stronger fall markets.

The alternatives of New England dairymen to shift to some other enterprise are extremely limited, unlike their counterparts in the Midwest and many other parts in the country. Our growing season is relatively short and supports grassland economy suitable for feeding dairy animals. There have been some efforts to diversify but those alternatives are limited and will be of secondary importance to dairymen. Dairymen must become even better managers of their resources in years to come.

For these reasons, I feel that freezing the support price at no lower than $11.60 would minimize the pain of adjustment which is now occurring. It would not be excessive and would allow for a transition to a dairy specific economic formula, coupled with the appropriate supply and demand adjusters.

Thank you for listening.

Senator **Cochran**. Thank you Mr. Foster. Leo Connor, please proceed.

STATEMENT OF LEO CONNOR, FARMER, ALSO DIRECTOR, EASTERN MILK PRODUCERS CO-OP

Mr. **Connor**. Senator Leahy and Senator Cochran, I want to thank you for this opportunity to address myself to the 1985 farm bill.

Before I get into the background, after I present you a little of the background, I am going to give you some ideas of what I have think about what the 1985 farm bill should be. But before I get into that, I want to explain to you, it is not necessarily what my favorite plan would be. But know the political realities, I've kind of kept it to what I think we might be able to get out of the Congress and out of the administration, and also the fact that I did receive a letter from somebody indicating that I was subject to only 5 minutes. Apparently, I'm the only one that got that letter.

Senator LEAHY. You're the only one who read it.

Mr. CONNOR. And the other thing was that I also received another letter on Saturday telling me that I had to have 10 copies of this. It was impossible for to get it copied, so my good wife, regardless of whether we were having a St. Patrick's Day party, she gave up some of her time there. But before she copied this 10 times, she did do some editing. So it's a little bit shorter than from what I had anticipated.

Senator LEAHY. I didn't know I was going to do that to you on St. Patrick's Day—I feel terrible. I think I've lost a vote there.

Mr. CONNOR. My name is Leo Connor and I've been dairy farming since 1940. Presently I operate a 550-acre dairy farm in Vermont. I'm also director of Eastern Milk Producers Co-op, the largest dairy co-op in the Northeast, with membership in Vermont, New York, Pennsylvania, New Jersey, and Delaware. For the last 2 years I've also been a director for the National Milk Producers Federation.

I have four sons and one son-in-law who own and operate their own individual farms. Another son is my herdsman and the main worker on the home farm. And, as I was saying, it just occurred to me, that that's over 50 percent of my family that's engaged in dairying. And the other thought that came to me that when I think of the price they get and the work they do, I hesitate to form any conclusions from that, and—about the family—and I hope you don't either. It takes a little while for that to sink in, but I think you get what I mean.

Senator LEAHY. I caught it. I may not be Irish, but I caught it.

Mr. CONNOR. I mention this to let you know that my family and I have an important stake in the future of dairying. These young people have had 4 very difficult years. Yet they still have the hope that they and their children will be able to continue farming for many years to come. For although the way we farmed back in 1940 has dramatically changed, and it has become highly technical, mechanized, and labor efficient, it still has a quality of life which they feel replaces to some degree the lack of financial returns which a like effort and investment in other pursuits would bring.

To point out how much dairy farmers contribute for such a small return, I will cite the example of one of my sons, Paul. Paul produces over 1 million pounds of milk per year. He does entirely alone; not only doing the work of a herdsman, but also producing and harvesting the feed required by these animals. This 1 million pounds of milk supplies the fluid milk at the rate of 2 quarts per day to 1,400 families. Think of that. One man supplies 1,400 families their total fluid milk supply every day of the year. And for this herculean effort, there are some months when he has trouble paying his operating costs. His herd average is 17,000 pounds. He does not have a large investment in machinery, and he has a very good FmHA finance setup.

My other sons and son-in-law have relatively the same type of efficient operations, and they are no different than thousands of other young dairy farmers across the Nation whose hard work and efficiency is paying off only to the consumers.

In the dairy section of the 1985 farm bill, we must try to stabilize the dairy industry by trying to keep production and demand in balance. To that end I would suggest that the 1985 dairy farm bill freeze the support price at no less than $11.60 or more than $12.00 until CCC purchases are projected to drop to 5 million pounds of milk equivalent, at which time the 1985 farm bill will take over.

It is projected that at $11.60 purchases of 5 billion pounds of milk equivalent will be reached in 1988. I myself feel that it will reach the 5 billion pound mark somewhat sooner than 1988. Possibly 1987. I would further suggest that a support program based on a specific dairy price index be continued along with commodity purchases; that adjustments be made in the support price semiannually, based on projected CCC purchases. Further, that authority be given to the Secretary of Agriculture to implement the program at his discretion, but within guidelines furnished by Congress.

I fully support the standby provision be included that could quickly turn production either up or down if unusual circumstances cause supply and demand to be out of balance. This provision I feel is a must in order to establish stability for the dairy industry.

The 1985 farm bill must provide that the other segments of agriculture, such as those farmers producing grain, wheat, beef, pork, and so forth, will also receive a reasonable return for their investment and labor. For any part of agriculture, or any other segment of agriculture, cannot remain economically sound unless all agriculture is likewise economically viable.

In our attempt to solve the dairy problems, consideration must be given to the social implications so the dairy farmer and his family is not duly disruptive. Since the Federal Government has taken on the responsibility of establishing a pricing program for milk that would be equitable to both producers and consumers, it also has the responsibility to correct any errors that may have been made that led to an overproduction. The corrections that must be made must not be made at the sole expense of the dairy farmer.

We must understand that there has been and will continue to be dairy farmers forced out of business in order to bring supply and demand into balance. We must also realize that we are not losing just those dairy farmers who are poor managers, but rather we are liquidating good, young, capable dairy farmers who will be needed in the future. Those young dairy farmers who entered into the business of producing milk during the last 10 years are the most vulnerable to liquidation. We must make sure that we don't lose these, for the majority of these young dairy farmers are educated, and they're equipped to enter other pursuits and could well be lost forever as food producers.

To sum up briefly what I feel the 1985 farm bill should contain for the farm industry are the following:

A freeze of the support price until the purchase of the 5 billion pounds of milk equivalent is obtained.

Second, a support price based on the dairy index and sensitive enough to adjust up and down to the projected needs of the market.

Third, a standby provision to solve an unbalanced supply and demand due to unusual circumstances.

To give the Secretary of Agriculture authority to implement all of the provisions of this program, within guidelines as established by Congress.

And fifth, consideration be given to making adjustments that will not put an undue burden on dairy farmers, especially those who are young and will be needed in the future.

Thank you.

Senator COCHRAN. Thank you Mr. Connor for your excellent statement. The next witness is Dr. Richard Stammer, Agri-Mark.

STATEMENT OF DR. RICHARD W. STAMMER, MANAGER OF ECONOMICS AND COMMUNICATIONS, AGRI-MARK, INC.

Mr. STAMMER. I would also like to thank Senator Leahy and Senator Cochran for inviting me to testify today. Like Mr. Connor, I did receive the letter on the 5-minute limit. I thought that was just because I was from New Hampshire.

Senator COCHRAN. All right, three.

Mr. STAMMER. My name is Richard Stammer, and I reside in Londonderry, NH. I am presently employed as the manager of economics and communications for Agri-Mark, Inc., on whose behalf I testify today.

Agri-Mark is a dairy cooperative with approximately 3,200 members in New England and eastern New York State. Previous to being employed by Agri-Mark, I was a professor of agricultural economics at Rutgers University for 11 years.

The dairy industry today is in a state of turmoil. Producers today are receiving a lower price for their milk than they were 4 years ago, and they are now faced with the prospect of continuously declining prices and the prospect that the price support system which has served this country for well over 35 years will be terminated. It is true that we've had a large surplus problem in the dairy industry for the past 5 years. And that problem is of concern to all but, especially to dairy farmers themselves. However, we should understand what caused this problem before we consider discarding a program that for 30 years provided stability to farmers so they could make long-run business decisions and provided consumers with an assured supply of dairy products at a price below what it would be in a free market environment. The dairy price support system did all of this at a very minor cost to taxpayers. Let me read to you a quote from the 1984 USDA study mandated by Congress concerning the Dairy Price Support Program.

> The stabilizing influence of price supports contributes positively to economic efficiency. To the extent that dairy farmers or their lenders are risk-averse, the greater the risk associated with a farming enterprise, the greater the return required to induce investment in that enterprise. Moreover, stability facilitates more efficient planning and allows better use of fixed plants and equipment. Hence, to the extent

that the Price Support Program reduces price risk and stabilizes output, production is greater at any given average price than it would be without supports.

To sum up what that study mandated by Congress said, since the price support system not only provides stability to farmers, but it gives lower prices to consumers. The surplus problems of the 1980's are not due to the fact that the Dairy Price Support Program no longer works. Rather, they are due to primarily two factors that resulted in the support price in the late 1970's that was too high. First, the fact that milk was supported in 80 percent of parity without taking into account supply and demand factors; and, second, the fact that the parity index itself did not adequately reflect the costs of producing milk. If the price support levels are established in a proper manner, the Dairy Price Support Program will continue to be beneficial to both producers and consumers at a minimal cost to taxpayers. For that reason Agri-Mark supports the following provisions for inclusion in the 1985 farm bill:

First, maintenance of the dairy price support purchase program by the Federal Government.

Second, freezing the support price at $11.60 until Government purchases fall below 5 billion pounds of milk equivalent. Research has shown that this level of support would bring Government purchases down to the 5 billion pound level in a couple of years.

Third, once purchases have fallen below 5 billion pounds, institute the dairy specific parity index developed by the National Milk Producers Federation. This index has several aspects that should result in the support price that keeps markets in balance. And the three basic aspects are first, the base year is update from 1910 to 14 to 1976 to 78. These were years in which supply and demand were in balance. The second aspect of that dairy specific parity is it related the dairy support price directly to the cost of producing milk, unlike our old parity index. And third, it has a productivity adjuster that lowers the support price as production per cow increases. And this could become very important in the future with such things as bovine growth hormone come into play.

The fourth point, a supply demand adjuster to the support price calculated from the dairy specific index to further assure market clearing prices. This supply and demand adjuster was also developed by the National Milk Producers Federation.

The inclusions of these points in a 1985 farm bill will make the price of milk responsive to market conditions without discarding the beneficial aspects of the Dairy Price Support Program.

As a final point, it should be remembered that dairy production does not respond instantaneously to changes in support prices. The problems of the 1980's were caused by prices being too high in the mid and late 1970's; thus, a support price of $11.60 is sufficient to bring markets back into balance in a couple of years. A lower support price would not only cause undue hardship on dairy farmers, but risks the future adequate supply of milk to consumers at reasonable prices.

Thank you.

Senator COCHRAN. Thank you very much Dr. Stammer. Senator Leahy?

Senator Leahy. Mr. Chairman, I was going to follow up Dr. Stammer's last point. Do you feel that the Dairy Price Support Program has contributed to lower consumer costs?

Mr. Stammer. Yes, Senator Leahy, I definitely do. It's sort of hard to figure out exactly how much it saves consumers, but milk is a commodity very much like oil. When you've got a little bit too much, consumer prices stay down. When you've got a little bit too little, consumer prices skyrocket. And when you look at times when supply and demand were in balance, milk prices go about equal with the Consumer Price Index.

Senator Leahy. So to the extent that you can use the price support level to keep that balance, it's in the consumers' benefit?

Mr. Stammer. For instance, I estimated in 1984, our worst year in Government costs, it cost the Government about $2.5 million. I estimated that it saved consumers over $6 million

Senator Leahy. Mr. Chairman, I've been on Mr. Foster's farm. He has a beautiful farm down in Addison County, one of the lovliest areas of our State. In fact, I went down with my oldest son, who is now a junior at the University of Vermont. We went around and looked at his methane plant. He produces methane gas, turns it into electricity and sells it to the co-op. I brought a skeptical teenager along with me to take a couple of pictures and he found it fascinating. And he's talked about it a lot since.

You had said toward the end of your testimony something to the effect that you thought there was a limit to diversification for farming in Vermont. Did I understand that correctly? Could you expand just a little bit on that? I just wondered what opportunities are there for diversification.

Mr. Foster. I think there are opportunities. The problem is finding the capital available to capitalize and investigate these opportunities, coupled with the fact that markets do not exist for, or there are limited markets that need to be expanded to develop these opportunities. With farmers only having less than, well, if we go to the $11.60 level, somewhere around 40 percent of their depreciation to spend on keeping their business going, there isn't anything there to do this with. And there needs to be some outside stimuli for that to occur. So short term, I think that the opportunities are limited. Long term, I think there's a lot of potential for developing alternative uses of things that we currently do and marketing those to the consuming public, which we are adjacent to in this area. There are a number of restrictions, though, that are placed on producers or someone involved in doing this.

The electrical generation and sale to the utility has been a fascinating experience, I guess. We've seen a price that we thought we would receive for the electrical generation drop by 10 percent a year rather than going up. It's all a function of national interest and energy supply and those kinds of things. When there isn't any, we have a crisis. When we have plenty, there's no longer a crisis. And I'm afraid that's kind of what's happening in agriculture in general. And we live in a country of abundance and most people don't really realize that we've got a crisis on our hands.

Senator Leahy. I just wish that remark could be emphasized and emphasized and reemphasized. There is a crisis. It's the old leaky roof notion. You don't need to fix the roof when the sun is shining, and it's darn near impossible to fix when it starts raining.

Mr. **Foster**. With the energy situation we've bought a couple years. But the trouble is we've sort of frivoled away those couple of years. I think we're going to be right back into it a few years down the road.

Senator **Leahy**. I think you're right. Mr. Connor, you have looked at this whole thing from the role as commissioner, to the role of operating farmer yourself, to sitting on national boards and seen it from all angles. If you were to say one or two things that the dairy industry could or should do, at least in the short run, in the overview to sort of pick out the one or two most important things, what would that be?

Mr. **Connor**. This may be the long run, but my solution has been for years and years and years that we do need a supply regulation. I have always always talked about quotas or some form of that. We're probably the only industry that goes out there and makes all we can and then throws it out on the market and say what can you give me for it. This business of a free market is fine; but the free market is always being controlled. Anybody who makes automobiles, they've got their orders before they start making the automobiles. When they've reached that amount, that's the end of it. I think we have to, in the dairy industry, just realize that we cannot make all the milk we want, send it out there, and always get the price that we need for it. We do have to have some kind of controls. I think the farmers, the average farmer I don't think we'd have any trouble selling that to him. I think the co-op people may give you some flak on that, as well as some of the dairy economists. But the average dairy farmer that I've spoken to, all over the years, it doesn't take much to find a room full of farmers and they all agree, yes, we should have some kind of a control on production so that we can get the price we need.

Senator **Leahy**. Thank you.

Senator **Cochran**. Thanks very much for the contribution you've made to the hearing. Our final panel will consist of Robert Rumler and Dr. Fred Webster, if you'll come forward, please. Mr. Rumler, you may proceed.

STATEMENT OF ROBERT RUMLER

Mr. **Rumler**. Thank you Mr. Chairman and Senator Leahy. Like others I would like to express my appreciation to you and to Senator Leahy for the invitation to testify today as a friend of the committee.

While my orientation and background is primarily national and international in scope, having you in Vermont is of significance to those of us who have lived here for many, many years. Although testifying as an individual, I do so on the background of 35 years as the chief executive officer and chairman of the world's largest dairy breeders organization which involves about 44,000 members in every State in the Nation. And also, a multiplicity of interest and involvement, obviously, in the industry as a whole. Also as a member of the Agricultural Policy Advisory Committee for multilateral trade negotiations since 1975. And as a former chairman of the FAS Cooperators Group, which of course is now the U.S. Agricultural Export Development Council and as a private sector representative on the U.S./U.S.S.R. Joint Commission on Agricultural Cooperation, which as you know has kind of petered out, but is coming back again, apparently, from what the Secretary said the other day.

So permit me, therefore Mr. Chairman, to get into the subject of dairy legislation for the 1985 farm bill through the international marketplace. In recent testimony before the full Senate Agriculture Committee which both of you attended, Secretary Block stated that he had all the necessary tools needed to expand our agricultural exports. Well, that's highly debatable.

Given the administration's proposed legislation, which rests heavily on GSM-102 credit guarantees with finder's fees, and hopefully negotiated access to foreign markets for which we would have to give as much or more than we get in return. It's no secret that dairy was a big chip item on the negotiating table during the Tokyo round of trade negotiations and it will be an even bigger chip in any such negotiations in the future and is so recognized by both the USDA and USTR. Far more important than you generally realize, and I think Senator Leahy was referring to this as a critical factor in our dairy industry, are the provisions of section 22 of the Adjustment Act in 1933. Above all costs, these provisions must be retained.

Free access to our domestic dairy market negotiated away in whole or part, for whatever reason, and for whatever possible gain, would be disastrous to our domestic dairy industry. In the long run, it would be a counterproductive action. So extreme care must be exercised in whatever legislation is enacted that it does not happen, either within the dairy title of the bill or an overly exuberant approach to the export title. In fact, the possibility of that happening has to be precluded.

Now, except for the international marketing of breeding cattle, the U.S. dairy industry has not been a factor in the rapid internationalization of American agriculture. More importantly, it will not be a factor in the international marketplace in the foreseeable future. The exception, of course, will be concessionary sales, Public Law 480 sales and humanitarian distribution internationally. But these are low volume, generally below market price, and in recent years, all of them taken only from surplus stock.

This then, Mr. Chairman, positions accurately the dairy title for the 1985 farm bill, and the provisions that it should contain. It needs to be a domestic program focused ivory soap clean on the domestic market. It cannot be, and it must not be, forced into the program mode of other commodities such as wheat, feed grains, cotton, and rice, the future of which lies in a competitive position in the world market. It just doesn't fit there. And the philosophy of consistency among commodity programs is fine for purposes of administration and budget, but consistency for consistency's sake is meaningless.

A commodity program must be designed for that commodity; for its market, for its unique characteristics, if it is to be effective in serving the interests of the producer as well as the consumer.

Milk and dairy products do not fit the mold of high volume export-oriented commodities for a variety of unique and special reasons. And this means that dairy does not fit the target price/deficiency program or approach as well. Neither does it fit the approach of establishing support levels based on a percentage of historic prices levels.

What then for the dairy title for the 1985 farm bill? I'm sure you don't remember it, but in June 1982 I was privileged to testify before this same subcommittee with you as chairman. That was in Washington. At that time I recommended an interim emergency program and a long-range program for dairy. That long-range proposal, because it was long range, remains vital today.

The long-range program embraces two principles. The first one reads like this:

> A national set-aside or check-off program from each milk producer. The funds so derived should be appropriately and judiciously allocated to programs of education, research, promotion, advertising, and related activities providing all producers collectively the opportunity as well as the obligation to help maintain a viable industry which in the long run would serve the best interests of the American consumer.

Thanks to the efforts of your committee, your own efforts, those of Senator Leahy, and of course our Congressman from Vermont Jim Jeffords, we now have that legislation. It behooves the dairymen of this Nation to continue this fine program in the referendum this coming August. I'm confident they will.

The second principle was solidly based on a dairy specific economic formula—this was 1982—for the establishment of the level of dairy price supports.

So now let me put this principle into fuller context as a specific recommendation for the dairy title for the 1985 farm bill as it relates to the Dairy Price Support or the Dairy Price Stabilization Program.

But first, the goal or the role of a National Dairy Price Support Program should be the stabilization of the industry, particularly at the producer level, combined with consumer security for an adequate supply of high quality milk and dairy products.

Conversely, and I think this is important, the role of the program per se should not be income enhancement of dairy farmers. Three fundamentals would be involved in this plan. You've heard them stated two or three times today, but let me repeat them for emphasis in my own words.

One, the established support level would be maintained under the present program for the purchase of dairy products by the Commodity Credit Corporation. Two, the basic level of support would be established by a dairy specific economic formula or index made up of the indices of costs of inputs into milk production, balanced as to their relative importance percentagewise for establishing cost of production or milk only. Three, provide for a supply/demand adjuster or adjustment procedure to the level of support generated by the economic formula, which I've mentioned above. Preferably this adjustment to be operated by the Secretary of Agriculture within established parameters based on projected CCC purchases.

And I would ask you to note that consideration of the support level adjustment should be made no less frequently than every 6 months.

Now I could give you the characteristics that I feel are necessary for a dairy specific economic formula, but I'll leave that for the record from my printed testimony.

I want to thank you, Mr. Chairman, for the opportunity to testify before the committee, once again, and ask that I might have the privilege of editing and extending my remarks for the record. If there are any questions, I'll try to answer them.

Senator **Cochran**. Thank you Mr. Rumler. Of course we'll be happy to have your prepared statement for the record. Thanks very much for being here. Dr. Webster?

STATEMENT OF DR. FRED WEBSTER, PROFESSOR, AGRICULTURAL ECONOMICS AND EXTENSION ECONOMIST, UNIVERSITY OF VERMONT

Dr. **Webster**. Thank you. Senator Cochran, Senator Leahy, I appreciate the opportunity to be here.

For the record, my name is Fred Webster. I'm a professor of agricultural economics and extension economist at the University of Vermont. I also have a daughter and her husband who run a 100-cow dairy farm in central Vermont.

And Senator Leahy, you mentioned maple. I spent yesterday running a maple evaporator for them.

The uncertainties of milk prices and the problems of stability were brought home to me as a 10-year-old. I watched my father and some of his neighbors organize a milk strike against one of our local milk plants around the kitchen table at home. Later, I watched him serve as secretary to a fledgling cooperative for the farmers in our town.

Over the years I grew up and saw the number of farmers, of cooperatives and milk dealers decline sharply. I saw State and Federal milk market orders develop to complement cooperative marketing. The development of price supports added to stability in the price of milk, but brought a new level of uncertainty—predicting the course of political action.

And if we get a 1-year farm bill in 1985, I believe this will only add to the problem.

Despite the intervention of Government, many of the problems in milk production remain. Milk is a very perishable commodity produced by thousands of independent dairy farmers for sale to a few milk dealers. There is a saying among farmers that you must sell it or smell it. For a product such as milk and very few buyers, the inequality of bargaining power is all too obvious.

In Federal Milk Market Order No. 1, now the New England Market but formerly the Boston Market, an average of 70 producers/farmers supply each handler/buyer of milk. And I'll have a table in my testimony to support that. With bulk tank trucks, handlers can buy milk anywhere in New England or eastern New York. Despite the drastic decline in number of farmers and the expansion of the market order to cover larger areas, the ratio of producers to handlers is still high and the relative bargaining power of farmers is weak. Dairy marketing cooperatives and milk market orders provide some leverage to help farmers balance their bargaining power with that of milk buyers.

TABLE 1.—PRODUCERS AND HANDLERS, FEDERAL MILK MARKET ORDER NO. 1

Year	Market order	Milk received (billion lbs.)	Number		Producers/handlers (ratio)
			Producers	Handlers	
1938	Boston	1.07	15,218	437	35/1
1943	Boston	1.25	13,547	303	45/1
1948	Boston	1.34	13,023	248	53/1
1953	Boston	1.65	12,854	116	111/1
1958	Boston	1.93	10,689	109	98/1
1963	Boston	2.42	8,237	135	61/1
1968	MA-RI-NH	3.46	8,706	241	36/1
1973	Boston Reg.	3.66	6,870	155	44/1
1978	New England	5.05	7,769	137	57/1
1983	New England	5.56	6,836	97	70/1

However, neither cooperatives nor milk market orders can get greater returns to farmers than sales to the market provide. In plain English, farmers cannot get more money than consumers are willing and able to pay from either cooperatives or milk marketing orders.

Because of the importance of milk in the American diet, especially for children and older people, maintaining an adequate supply of pure and wholesome milk has become a national goal. The relatively poor bargaining power of farmers and the high investment to produce milk involves a high risk. One of the best ways to keep down milk prices and ensure the viability of family farms is to cushion the excesses of free market competition by a safety net level of price supports.

And as shown in another table, which I will supply with my testimony, support levels varied from 90 percent down to 62 percent of parity between 1949 and 1983. The exact level has been a combination of economic reality and social pressures as expressed through our political process.

TABLE 2.—MILK PRICE SUPPORT LEVELS, 1949–83

Marketing year beginning in—[1]	Date effective [2]	Percent of parity equivalent [3]
1949	Jan. 1, 1949	90
1950 [4]	Jan. 1, 1950	81
1951		86
1952		90
1953		89
1954		75
1955		80
1956		82
1956	Apr. 18, 1956	84
1957		82
1958		75
1959		77
1960		76
1960	Sept. 17, 1960	80

TABLE 2.—MILK PRICE SUPPORT LEVELS, 1949-83—Continued

Marketing year beginning in—[1]	Date effective [2]	Percent of parity equivalent [3]
1961	Mar. 10, 1961	85
1961		83
1962 [5]		75
1963		75
1964		75
1965		75
1966		78
1966	June 30, 1966	90
1967		87
1968		89
1969		83
1970		85
1971		85
1972		79
1973	Mar. 15, 1973	75
1973	Aug. 10, 1973	80
1974		81
1975	Jan. 4, 1975	89
1975		79
1975	Oct. 2, 1975	84
1976		80
1976	Oct. 1, 1976	81
1977 [6]	Apr. 1, 1977	82
1977		82
1978	Apr. 1, 1978	80
1978		80
1979	Apr. 1, 1979	80
1979		80
1979	Nov. 28, 1979	80
1980	Apr. 1, 1980	80
1980		80
1981		75
1981	Oct. 21, 1981	73
1982	Oct. 1, 1982	69
1983		65
1983	Dec. 1, 1983	62

[1] Start of marketing year April 1, from 1951 to 1976, and October 1, from 1977 to present.

[2] If other than start of year.

[3] The actual percentage of the parity equivalent price published in the month before the marketing year.

[4] January 1, 1950-March 31, 1951.

[5] Beginning November 1962, parity equivalent is based on prices for all manufacturing grade milk instead of the "3-product" price for American cheese, evaporated milk, and the butter-nonfat dry milk combination used before.

[6] April-September transition period.

Source: Dairy Background for 1985 Farm Legislation, Agricultural Information Bulletin No. 474. ERS, USDA.

Opinions of honest people will differ on the effectiveness of our democratic institutions but, in this case, I believe the process has generally worked well. When the system has erred, it has usually provided enough incentive to provide an adequate supply of dairy products. The early 1970's provided a notable exception. When downward price adjustments were required to reduce the incentive to produce milk and reduce the resources used in milk production, the system has allowed a fairly orderly exodus with a minimum of social trauma, although the mid-1960's saw a dramatic decline in dairy farm numbers.

Purchases of dairy products for price supports prior to the 1979-80 fiscal year never exceeded over half a billion dollars in any year, except for 2 years. In 5 of the years during this period, purchases were below $50 million; not even enough to supply the normal donations of dairy products for foreign and domestic aid.

Between 1979 and 1983, net support purchases climbed to over $1 billion a year. The political system, frankly, was slow in making adjustments because of social concerns despite obvious economic signals. However, the system once again proved its flexibility and net costs for dairy price supports were reduced by $1 billion in 1984. And that's been reviewed here today so I will not do it here. As demand for dairy products grew and milk production dropped, CCC purchases were cut in half.

In 1985, it appears that both milk production and demand for dairy products will increase moderately. The declines in support prices tentatively scheduled for April 1 and July 1, 1985 should moderate the incentive to increase milk production caused by currently low grain prices.

However, the drop in grain prices underlines the need for flexibility in price supports for milk production. Any system to provide a safety net level of prices should allow for: (1) Changes in costs of those items used to produce milk, and, (2) price adjustments to keep supply and demand in balance.

TABLE 3.—*Net support purchases* [1] *by CCC, 1949-83*

Fiscal year:[2]	*Million*
1949-50	$170.5
1950-51	−49.1
1951-52	1.6
1952-53	274.9
1953-54	400.4
1954-55	228.7
1955-56	237.9
1956-57	239.1
1957-58	205.9
1958-59	102.1
1959-60	159.5
1960-61	173.9
1961-62	539.0
1962-63	454.0
1963-64	311.7
1964-65	157.2
1965-66	26.1
1966-67	283.9
1967-68	357.1
1968-69	268.8
1969-70	168.6
1970-71	315.4
1971-72	267.0

TABLE 3.—*Net support purchases* [1] *by CCC, 1949-83—Continued*

	Million
Fiscal year:[2]	
1972-73	135.8
1973-74	31.4
1974-75	485.8
1975-76	69.6
Transition quarter:	
1976-77	709.8
1977-78	446.4
1978-79	244.3
1979-80	1,274.0
1980-81	1,967.2
1981-82	2,231.3
1982-83	2,592.0

[1] CCC support purchases and related costs (for processing, packaging, transporting, and storing) dairy products, less sales to commercial buyers for domestic use and for export, U.S. military agencies, foreign government and private welfare agencies, and Section 32 programs.

[2] Fiscal year begins July 1 until 1975-76; October 1 thereafter.

Source: Dairy Background for 1985 Farm Legislation, Agricultural Information Bulletin No. 474. ERS, USDA.

In summary, the present price support system for dairy products has proved valuable for consumers and for dairymen. That's been well documented here today. It's not perfect. It needs periodic adjustments to meet economic realities and social concerns. But I think as a result of discussions now going on these adjustments can be made without major overhaul of our system.

Thank you for letting me testify today. I'll be glad to answer your questions.

Senator COCHRAN. Dr. Webster, thank you very much for your contribution to the hearing. Thanks to you, too, Mr. Rumler.

You all have been excellent witnesses, and I'm very glad that Pat Leahy requested that the subcommittee come to Vermont to conduct this hearing. I think we've had an excellent array of testimony and a lot of different suggestions.

I don't think we all agreed on what has to be done. We have a suggestion for a two-tiered pricing mechanism. Someone suggests we put emphasis on limitation of imports. Others talk about a supply and demand adjuster and a new cost of production adjuster. Other kinds of suggestions have included a support price freeze and other ways of controlling supply. But, in general, I think what we all agree to is that, no matter what you call it or what kind of credit system you have, we've got to have profit in dairying if we're going to save the industry. I think that's the message that's come through. We're going to have to work hard and develop a consensus in our committee to get a program that will attract a majority of the votes and do that. I think that's the challenge we face, and we're going to be working hard to make sure that happens. Senator Leahy?

Senator LEAHY. Thank you Mr. Chairman. Again, I want to thank you and the chairman of the full committee for making it possible to have this hearing today. I know we're going into the full committee hearing on Friday morning, as I recall the schedule, on the Dairy Program. I really wanted a chance to come back to Vermont first and have the first hearing here. I also want to be able to have on the record testimony of people who are not the professional witnesses that we'll often get in Washington.

But we will make sure that at least one Vermonter comes down to Washington to testify. I stated before that before any action on the bill takes place, I want to make sure that Vermonters are heard and Vermonters testify. And they will. But I also would hope that everybody who has been so good to stay here, and we've gone way over the time originally scheduled, I appreciate your staying. But I also, I want you to know that it doesn't just stop with the hearing today. Every one of you, feel free to call me, to write me, to let me know your views as we go on. I'm up here quite often. Ron Allbee is here all the time. You should feel free to do that. Thank you very very much, You've helped both Senator Cochran and myself. Thank you very much.

Senator **Cochran**. Thank you all. The hearing is adjourned.

[Whereupon, at 12:55 p.m., the subcommittee adjourned, subject to call of the Chair.]

REAUTHORIZATION OF THE AGRICULTURE AND FOOD ACT OF 1985

FRIDAY, APRIL 12, 1985

U.S. SENATE,
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Fresno, CA.

The committee met, pursuant to notice, at 1:40 p.m., at the California Farm Bureau, Hon. Pete Wilson presiding.

Present: Senator Wilson.

STATEMENT OF HON. PETE WILSON, A U.S. SENATOR FROM CALIFORNIA

Senator WILSON. This hearing will come to order. Good afternoon, ladies and gentlemen, and welcome to this field hearing of the Senate Committee on Agriculture, Nutrition, and Forestry, on the subject of the trade title of the 1985 farm bill.

I'm Pete Wilson, the junior Senator from California, and a member of the Senate Committee on Agriculture.

Throughout the past month, the Committee on Agriculture has been meeting in Washington, sometimes three or four times each week, to consider the state of American agriculture and the necessary changes to be made in our Federal farm policy. These hearings, which are scheduled to continue into the month of May, have provided the opportunity for hundreds of witnesses to share information with the committee.

Traditionally, Federal farm programs have focused on what are called the basic farm commodities, such as wheat, corn, cotton, and rice. Much of our current agricultural legislation derives from actions taken in the 1930's in response to the Great Depression. Only incremental adjustments have been made over the years to meet the changing farm needs.

Although the soon to expire 1981 farm bill has provided a degree of stability in our domestic markets, its costs have been very high. These costs include a substantial loss of foreign markets, rising Federal costs of the farm programs, and an accumulation of Government-held stocks. The huge stocks of surplus commodities which accrued in 1982 were reduced substantially by the Payment-in-Kind Program, however, while U.S. farmers reduced their acreage, our worldwide competitors expanded production and captured traditional U.S. market shares.

I believe that past farm legislation has failed because it has not adequately recognized that American agriculture must maintain control of traditional U.S. market shares and also expand upon new export markets. At one time the United States was less dependent on overseas markets and we had greater internal freedom to set price supports and production controls without the secondary world market effects. Today, we must recognize our interdependence on the world market. Our price supports form an umbrella for the rest of the world and our production cuts stimulate increased production by our worldwide competitors.

The production of horticultural crops—fruits, vegetables, nuts, and flowers—is an important component of California agriculture and comprise a substantial share of our agricultural exports. However, these crops have not been considered by previous farm bills. Therefore, this year, the committee's attention must focus on horticultural crops.

I don't need to remind this audience that California is the Nation's No. 1 agricultural producer and ranks in the top three States in farm exports. As you know, 28 of the State's crops are dependent upon export markets to absorb over 50 percent of their production. Eleven of these export dependent crops are grown only in California, and one in every three California acres produces crops destined for overseas markets. Nearly 25 cents of each agricultural sales dollar in our State is derived from export sales.

It has been said that the California connection to the international market is both a door of opportunity and a window of vulnerability. On the one hand, the export market serves California farmers by absorbing a significant portion of our production and maintaining farming profitability. On the other hand, however, the recent loss of export markets has severely upset farm returns. Cotton, rice, and wheat depend on exports for as much as 80 percent of their sales. About 45 percent of the California lemon crop is exported, as is 60 percent of the almond crop. Thus, when foreign nations limit our exports, either through overt actions, like tariff barriers, or due to a diminished ability to affort our products as a result of the strength of the U.S. dollar, California agriculture is especially vulnerable.

After a decade of steady growth in our exports, California farm exports have plummeted twice in as many years. They dropped by as much as 20 percent in both 1982 and 1983. Factors contributing to the sharp decline include the strong U.S. dollar, sluggish worldwide economic recovery, and increased unfair trading practices on the part of our international trading partners. Federal action can and must be taken to reverse this trend.

About 2 weeks ago the Senate of the United States, by a vote of 92 to 0, passed a resolution in which we finally officially recorded an end to our patience. We instructed the President of the United States to either secure equity for our farm and other exports, or to take retaliatory measures against our trading partners. The Senate's overwhelming support for this resolution reflects a concern that goes far beyond the farm bill; a concern for the growing Federal deficit and its related impact on the strength of the dollar. As you know, the value of U.S. currency has increased significantly in recent years and presently constitutes both an import subsidy and a hidden import tax.

I'm sure that each of us in this room are well aware of the adverse impact that the strength of the dollar has had upon our agricultural business. For that reason, I believe that the best farm bill that Congress could enact this year might be one that didn't even mention farmers or commodity programs. The best farm program is a significant reduction in the Federal deficit, because the best farm program would be one which would lower interest rates.

In addition to working with you on developing an effective farm bill, I will continue to give my highest priority to actions which reduce Government spending, eliminate the Federal deficit, and ease pressure on interest rates. As you know, a variety of farm bill proposals have been introduced already, and I'm sure that there will be more on the way. While they differ in detail, there are recurring themes of market orientation at home and market expansion abroad in each of them. I believe that these two elements go hand in hand. We cannot devise domestic commodity programs with an eye towards world markets unless the trade title can effectively assist our farmers in acquiring fair and competitive access to those markets. We are not demanding a guaranteed market share but only a fair shake, only the opportunity to compete fairly. If we can get it, we well get our share of the market.

Therefore, it is essential that this legislation provide Government with the requisite tools to assure fair trade opportunitites for the American farmer.

The trade title of the farm bill can make a significant contribution to improving the economic health of California agriculture, and we should not ignore the potential which this legislation holds. That's why I'm grateful to you for being here. The record we make this afternoon will be a very valuable tool to me in making sure that the trade title of the farm bill provides the required tools.

While the trade provision in the administration's farm bill represents a cautious step in the right direction, we can and we must go further. The trade title introduced as an alternative by the chairman of this committee, Senator Jesse Helms, contains more specific provisions, but I'm still not satisfied that it adequately encompasses California's specialty crops. Therefore, I have convened this hearing this afternoon and asked you here to receive your recommendations on what we need to include in the trade title of the 1985 farm bill.

While the domestic commodity programs of the farm bill are not the focus of this hearing, I want to assure you that I am an advocate of a market oriented farm policy and believe that the 1985 farm bill should set Government loan rates at levels that reflect world market realities. The artificially high rates of recent years have led to predictable price undercutting by our international competitors, and have resulted in the loss of foreign markets and the costly expansion of Government-held inventories. In my opinion, emphasis on worldwide market expansion, not producer cutbacks, is the key to improvement of this Nation's image as a reliable supplier of food and fiber. Therefore, worldwide market expansion should be the cornerstone of the 1985 farm bill.

Finally, I wish to extend my appreciation to the Fresno County Farm Bureau for allowing us to convene in their building. I want to thank the witnesses, as well as the many observers for taking time to attend this field hearing. The day's proceedings will, I repeat, become part of the agriculture committee's hearing record, and will greatly assist us in our efforts to draft an appropriate and effective trade title.

Although it is regrettably impossible for every interested observer to appear before the committee this afternoon, we do invite anyone who wishes to do so to submit written statements to me regarding agricultural trade issues. Your written statements, if received by the end of this month, the month of April, will also become a part of today's hearing record.

As you can see from the agenda, we have a very full afternoon ahead of us. In the interest of time, I am going to ask each of the witnesses to keep their oral testimony to 5 minutes. We have full written statements from several of you, very good statements, but please, we will ask you to try to summarize and hold down to 5 minutes so that we may hear from all that are indicated on the panel list.

With that, let me again thank the witnesses, the observers, and call our first panel, which consists of two representatives of State government, the director of the California Department of Food and Agriculture, Mr. Clare Berryhill, and representing the California State World Trade Commission, trade specialist Jean-Mari Peltier. If they would now please come to the witness table.

In the interest of observing age before beauty, Mr. Berryhill.

Mr. BERRYHILL. I certainly have that.

Senator WILSON. I can say that because we go back a long way together.

STATEMENT OF CLARE BERRYHILL, DIRECTOR, CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE, SACRAMENTO, CA

Mr. BERRYHILL. Senator, in the interest of time, I know you have a lot of witnesses today, I have prepared testimony which you have for your records, and I would just very quickly like to just point out a couple of highlights as far as my testimony is concerned.[1]

We certainly agree with what your opening remarks were. We in California think the national debt is one of the causes of many of our problems. We relate that to high interest rates and the strong dollar, and these are all very devastating to agriculture. So based on that premise, I think that I can safely say that California agriculture strongly supports the President in his endeavors to try to reduce subsidies. Gradual reduction of subsidies we think is the proper way to go. But we also believe, as you mentioned earlier, that a strong market oriented Government policy is also in order.

We believe that especially in California that our export markets are very important to us, and without those strong export markets in which we have been experiencing a decline the last 2 or 3 years, we would be suffering some oversupply in many of our specialty crops.

One area I think that I would like to mention is the sugar beet act. We believe that it has worked well and that it should probably be retained in its present form. This is an act that has not cost the Federal Government any money, and I think to insure a sugar beet industry in California it is essential that we look at this very closely.

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[1] See p. 253 for the prepared statement of Mr. Berryhill.

One of the things I think that bothers us is the cargo preference. This is very costly to California agriculture when we're trying to export under some of the Government programs, and we believe that if cargo preference is essential for defense, then perhaps the defense budget should consider subsidizing those areas.

I think we're disturbed somewhat. We recognize and appreciate the strong stand that Congress took recently in demanding equal trade both ways with our foreign partners in trade, but I think we're distressed that when we hear talk at the Federal level, agriculture is rarely if ever mentioned. We hear of high tech, we hear telecommunications, but it's rare when somebody says we must do something to further promote our agriculture exports, so we hope that in negotiations or what occurs at that level that agriculture will not once again be the forgotten industry in the United States, and California in particular.

I think the thing that we are very concerned about is the tariffs and barriers that we continually face in trying to export our products. We know we have the quality, we have the production, and the competition we can handle, but we can't face the tariff barriers and the nontariff barriers that continually confront us.

With that I would like to close with written remarks. While we favor a phasedown of Government involvement in the business of agriculture, we believe Government involvement in export expansion is appropriate and vitally important. Further, we believe that exports represent the most feasible means of bringing the agriculture industry to the financial vigor that will permit a market oriented program. The newer farm policy should provide a strong export component and establish the basis for shifting emphasis of farm programs from support and subsidies to market promotion. And I thank you for the opportunity, Senator, to present my testimony today.

Senator **Wilson**. Thank you, sir. Miss Peltier.

STATEMENT OF JEAN-MARI PELTIER, AGRICULTURAL TRADE SPECIALIST, CALIFORNIA STATE WORLD TRADE COMMISSION

Ms. **Peltier**. Good afternoon. I appreciate this opportunity to speak before the committee.[1] Particularly I appreciate the fact that the Senator, in calling this hearing here, has recognized the importance—particularly of the trade component of this legislation—to Californians.

I don't want to belabor the points that were already raised by Senator Wilson in the discussion of the importance of horticultural commodities to California's export mix, but if you look at the fact that 45 percent of our agricultural exports from California in past years have come from the horticultural side, it's clear that we need to have a trade component that focuses not only on the needs of basic commodities but also those of specialty crop agriculture.

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[1] See p. 254 for the prepared statement of Ms. Peltier.

I'd like to first explain a little bit about the World Trade Commission and then get into a discussion of particularly how we've arrived at some points in the trade component.

The commission consists of bipartisan representatives of the Governor, Lieutenant Governor, Secretary of State, and 12 representatives of the private sector, including two from agriculture, that are charged with improving California's export performance.

In reviewing the legislative agenda for this Congress, the World Trade Commission has determined that the 1985 farm bill represents an important opportunity to expand our exports overseas. With that in mind, staff has been directed to make work on the 1985 farm bill one of our top priorities.

In an attempt to build consensus in the California community, the commission sponsored a 2-day retreat, which we now call the Murphys Summit. We invited about 30 representatives of production agriculture who have expertise in international trade to take the time, roll up their shirt sleeves, and come up with some real proposals that we can be presenting to you now. That will be the basis of my remarks this afternoon.

Obviously we agreed that the dollar is the No. 1 problem facing California agriculture in the international field. When you're dealing with a 30-percent overvalued dollar it's, in essence, like having a 30-percent surcharge tacked on your product. We agree that this macroeconomic factor is going to propel the writing of the 1985 farm bill.

While California agriculture recognizes the importance of budget reductions within our programs, we believe that there should be across-the-board reductions in the budget deficit, so that California agriculture is not the only one that's going to be forced to go through some belt tightening. With that in mind, we believe that there should be reductions in subsidy expenditures here in the United States and development of a program that is geared around the world market prices. But in concert with calling for reductions in our own subsidies here, we believe that there have to be the tools within the 1985 farm bill to call for elimination of subsidies—particularly export subsidies—abroad. The question is how do we do that, and that's been something that we've been grappling with for some period of time.

California agriculture doesn't want export subsidies, but we recognize that it is possible that a program—a limited program—of some sort of export incentive that might be called a subsidy, could be included within the farm bill to use as a negotiating tool to get our trading partners, particularly the Europeans, back to the negotiating table.

In concert with talking about subsidies, we believe that the 1985 farm bill should have some strong directive language to our Federal negotiators to seek changes in the dispute settlement mechanisms under the GATT, so those are the two areas in trying to press for elimination of subsidies abroad.

We also would like to see some strong language in the bill calling for greater market access. Now, in dealing with the question of market access I think we have to look at two different points. One of those is those unjustifiable barriers that we face throughout the world. We have just returned from a trip to Japan where we met with representatives of the Ministry of Agriculture, and the Ministry of Health and Welfare, and there are a number of areas where we think the current requirements by the Japanese are questionable. Those areas we need to be working on. In concert with that, though, we need to be doing our homework a little bit better and a little bit more thoroughly than we've been able to in the past. As an example, quarantine requirements—legitimate quarantine requirements—of foreign countries only become barriers when we lack the technical expertise to meet those quarantine requirements.

We're currently precluded from shipping nectarines to Japan due to coddling moth. We're in the process right now of developing technology to meet that quarantine requirement. We're moving along the lines of fumigation with methyl bromide, but in addition to that, we're looking at new means of meeting quarantine requirements. This includes a somewhat radical idea, which is a certification approach that would include a number of safeguards to prove that we would risk no level of infestation in our crops. At the same time we would not have to use fumigants, which are currently at risk.

There are a number of other areas I'd like to touch on briefly. We'd like to see expansion of Foreign Agricultural Service market promotion programs. By that I mean both the Export Incentive Program for proprietary product promotion, as well as the cooperator programs which provide matching Federal funds for generic promotion of commodities. We think the track record of these programs has been extremely successful.

In addition to maintaining these programs I would like to see the other export information services provided by the Foreign Agricultural Service maintained. As an example, the Agricultural Information Marketing Service, which was just implemented about a year ago, has been a great deal of benefit, particularly to California agriculture. We were disappointed, I have to be frank, in the level of representation that the Foreign Agricultural Service was able to have at the world's second largest food show, that of Food Ex in Tokyo. While we had our meetings in Japan, we took some time to go over to the show. Comparing the U.S. effort to that of other competitors, such as France, such as Germany, such as Denmark and others, we were extremely disappointed in the kind of promotional activities that Foreign Agricultural Service was able to put on due to their budget constraints.

Looking at the Public Law 480, or Food for Peace Program, we would like to see it expanded to make it clear that it covers specialty crops, and value-added, high-value products. In line with that, it would appear that Senator Helms' provisions to assure that processed or high-value products that are included under title 2 donation provisions would appear to have some merit.

Mr. Berryhill already mentioned cargo preference. It was pointed out to us just a couple of days ago that cargo preference has been a particular problem for California. Often the ships that are chosen under the cargo preference are ones that are so large that our ports are not able to service them. This puts California at a comparative disadvantage, even in trying to meet contracts against Southern U.S. producers of like products.

We agree that a program for intermediate credit similar to that proposed by Senator Helms would be helpful, particularly for those countries, perhaps Korea, that are seeing themselves graduated out of the existing programs.

We'd also like to look at the possibility of multiyear programming of the Public Law 480. It has been pointed out that there have been a number of delays from year to year in getting the final approval under Public Law 480 contracts, so we'd like to see some changes there.

The final point I'd like to make is that we have acknowledged that we've got a problem with the proliferation of subsidies overseas. But the industry, in trying to document its case for other countervailing duty or antidumping actions, has run into some real difficulties in having adequate and accurate information about what kinds of subsidies are going on overseas. We believe that it would be reasonable, under a miscellaneous title of the 1985 farm bill, to include provisions to call on our agricultural attachés to prepare annual reports of production subsidies abroad. This will conclude my remarks, Senator Wilson. I would be open for any questions.

Senator WILSON. Thank you very much, Miss Peltier. That's very useful testimony.

You've already anticipated a number of the questions that I had, but your testimony also raises some. Let me ask Director Berryhill, it is apparently the position of the State World Trade Commission that there ought to be a new round of multilateral trade negotiations with the U.S. trading partners for the purpose of strengthening GATT, including its dispute settlement mechanism which has been grossly inadequate. Do I understand correctly that the official position of the Governor and the State is in support of new multilateral talks?

Mr. BERRYHILL. Absolutely, Senator. We think this is an essential element of any farm program that we're going to be involved with.

Senator WILSON. Is there any other particular measure that you would find necessary or useful to improve the posture of California and other States in terms of securing export equity for our farm products?

Mr. BERRYHILL. Well, I think—and I have already talked to your administrative assistant——

Senator WILSON. Let me introduce him, by the way. This is Patrick Boyle, who is my legislative assistant for agriculture.

Mr. BERRYHILL. I had a long talk with Pat when he was in Sacramento, and we are going to send Pat an issue paper on this very subject pointing out some of the areas in which we feel that we're being discriminated against in the actual market. I will be sending you a detailed list of at least those that we are familiar with so you'll have an update on some of the areas you might want to point out when negotiations start in which we feel we're being discriminated against.

Senator WILSON. That will be very helpful and we'll look forward to receiving it. In response to Miss Peltier, with regard to an annual report by attachés, I would second that. Shortly after arriving in the Senate I made an effort to secure from the U.S. Department of Agriculture the kind of assistance that I knew was necessary to uncover subsidies with respect to the production of foreign wines being imported into the United States. I would have to say, my experience with the Department proved to be distinctly disappointing. I won't take the time to go into it here, but I feel that there was very likely some conflict of interest and emotions within the Department relating to concerns about our own very limited subsidies of U.S. farm products and are raised against our farmers when they complain about the flood of subsidized foreign wines that are imported into this Nation. I think that your point is well taken.

There is another point that Miss Peltier raised that I would like to ask you about, Mr. Berryhill. I am advised that the State is considering an expenditure to assist in market development similar to the kind she has described and discussed with regard to USDA's Foreign Agricultural Service. Is it true that the State is budgeting $5 million for a Market Development Cooperation Program?

Mr. **Berryhill**. Well, Senator, I presented my case to the cabinet as late as last Wednesday, and I do not have a final determination. I think, as the Governor pointed out after my presentation, he would like to sleep on it, so that's kind of where we are with that, but I think I want to go and explore that with industry. I would hope if we were able to achieve that, the Federal FAS Program wouldn't consider it as a reason to back off of anything they're doing, and I'm sure they wouldn't, but that has been a question that's been asked. I think it looks favorable, and I think we're going to be moving in that direction.

Senator **Wilson**. In your contact with other State agriculture directors, do you know if very many other States are engaging in a similar program?

Mr. **Berryhill**. Most States are engaging in some type of an Export Expansion Program, some of them in a very high level of expenditures. Even Oregon, as an example, is spending $3 million in this area, and if you consider their gross agriculture compared to California, that's a considerable amount of money. We have Texas—Florida is probably the highest one, and they're spending somewhere in the area of $10 to $12 million a year. Many of them have export offices scattered throughout the world to assist their agriculture exports. I'm not necessarily looking at that approach to it, but I think that we have to begin to consider the economy of agriculture of the United States. As you know, it's in a serious position right now with all the things that we have running against us, and so I think that the States themselves and the Federal Government have to try to assist in that export effort.

Senator **Wilson**. Miss Peltier would you respond in writing for the record, regarding your remark of mixed feeling within the commission which supports free trade, but recognizes that there may be some interim value to some kind of an export subsidy. In addition, do you have in mind something other than the kind of promotional expenditures which FAS is making and which the State is considering?

Ms. **Peltier**. We're in the process right now of trying to determine how you develop a program to get the attention of the Europeans without developing an institutional program of export subsidies, and we're grappling with that right now. Something similar to the program that was embodied in Senator Helms' language, calling for an export PIK, may make sense in some commodities. In other commodities, the $325 million export promotion funds might be applicable.

The problem with that, is that I think history has shown us that when Senator Helms had language in the Budget Reconciliation Act a couple of years ago providing for a similar kind of fund, the administration had one wheat sale to Egypt that fired the proverbial shot over the bow to let our trading partners know that we were serious about regaining markets that we had lost to subsidized competition.

But the bulk of the fund went to lending programs. Those programs are of benefit to basic commodities, but for horticultural crops, which aren't sold on long term credit, they are of limited benefit. We'd like to develop a program that might be more helpful to California agriculture.

Senator WILSON. I thank you both. Your testimony has been very, very useful and I'm grateful to you for being here today.

Mr. BERRYHILL. Thank you, Senator. Just for the record, the State board of agriculture also endorsed the statement that I presented today.

Senator WILSON. Thank you. Panel two consists of Frank Light, the president of Sun-Diamond Growers and a member of the Agricultural Trade and Export Policy Commission; Richard King, the president of Richard King International; Kalem Barserian, who is the executive officer of the Pacific Coast Growers for Fair Trade; and William McFarlane, chairman of the California Farm Policy Committee.

Gentlemen, we're delighted to have you here. Mr. Light, we'll let you lead off.

STATEMENT OF FRANK R. LIGHT, PRESIDENT, SUN-DIAMOND GROWERS OF CALIFORNIA

Mr. LIGHT. Senator, again, we wish to thank you very much for coming here to hear the issues, and if you will accept, I have a written submission that I've given to the staff for the record.[1] I not only speak for our farmers cooperative, Sun-Diamond Growers, but also as vice chairman of the National Council of Farmer Cooperatives, and I affirm in that presentation many of the issues that have already been spoken of. The value of the dollar is certainly indicative of our export business, but it also is hurting our domestic because it's aiding imports.

I think one of the greatest issues we have is a lack of a U.S. agricultural trade policy. It's certainly something that needs to be had, and also we have to get firm, even if we have to retaliate, we have to get that level of playing field in foreign trade.

We think too that our Nation has to return to using food as part of our Foreign Aid Program. Food today is only about 16 percent of the Foreign Aid Program and should return to where it's at least a third or half, and when we use it for foreign aid we should use it as part of the Market Development Program. We have to become a reliable supplier, we have to have fair trade both ways, and also I note here we're not too immediately concerned about some of the problems in the Midwest, but Senator, we need a balanced budget, and with a balanced budget we have lower interest rates, and with lower interest rates we think the value of the dollar will diminish and improve trade, so we encourage the free market approach that you've already talked about because we think it's necessary for a strong economy and without a strong economy we in California don't think to survive.

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[1] See p. 257 for the prepared statement of Mr. Light.

But Senator, I've got news for you. We can't wait for the farm bill. The farm bill, if it follows the 1981 action, will probably be signed in December of this year, which means it's effective for the 1986 crop, and our farmers are already on a negative cash basis. We don't have cash flow in this industry here in California. There is hardly a commodity group going where the cash income is sufficient to cover cash outlet and that means we're going into the 1985 crop in trouble, and I think there's a lot of things back in Washington that the administration can do without a farm bill to help the trade issue. The Secretary, as was mentioned earlier, has the authority to use surplus funds to put the shot over the bow of these people that are cheating us in foreign trade and send that signal. We can get tough in international trade negotiations without Congress having to tell the administration to do it. We have Public Law 480 programs, special commodities like raisins can be used, and used effectively, but somehow the administration thinks our California commodities are luxuries. They don't recognize the good nutritional value that can be used in foreign aid programs.

Senator, I think the greatest message you can carry back to Washington is the 1986 crop is too late for our farmers, and there is a lot of things the administration can do without a farm bill. Thank you, sir.

Senator WILSON. Thank you, Mr. Light. Mr. King.

STATEMENT OF RICHARD KING, PRESIDENT, RICHARD KING INTERNATIONAL

Mr. KING. Senator, it's a privilege to be here and testify at this hearing, as one who spent about 20 years advising some of our leading agricultural interests, also as chairman of your International Trade Advisory Committee. I think Frank has covered some very key points, and you have my written testimony. Let me just hit in my 5 minutes about six key areas very briefly.[1]

I think first of all, when you look at making California agriculture more competitive, I think obviously all of us are going to say here this afternoon, the super dollar is the big culprit. We've got to do something about that. It's cutting into farm profits, it's cutting into overseas markets. We've got to allow the foreign buyer the capability to buy our produce, our product.

Second, we've got to establish a national agricultural policy at the highest level, and when I say that I mean the kind of policy directed at making farm exports more competitive and negotiating major multilateral and bilateral agricultural agreements.

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[1] See p. 265 for prepared statement of Mr. King.

Third point I'd like to make is that I belive that we've got to figure out how we can best help the farm sector through better sources of funding and better kinds of funding. It is my personal judgment that current support is outdated, inefficient and unequipped to compete with foreign governments support of agriculture.

I think on the fourth point, Senator, I would like to point out that the Government must help the farm sector in becoming more market oriented and less support oriented. I'm sure you'll have more comments about that this afternoon.

I think, fifth, that the Government needs to help agriculture regain the international reputation of being a reliable supplier. My personal opinion in working with a lot of our California agricultural interests, I believe we have to avoid mixing politics with strategic matters, agricultural supply and demand. I think that hurts the farmer.

Lastly, I believe that we've got to figure out when it's advantageous to enter into bilateral agricultural agreements and when it's advantageous to enter into multilateral agreements. I don't believe these two policies are necessarily conflicting, but we just don't have an overall strategy that tells us what to do, and I think that we've been victimized, our California farmers have been victimized by loopholes in GATT, the GSP, and by international agreements such as those enforced by European Economic Community.

So, having said that, let me just add three or four points of maybe solutions to this and what we can address legislatively. Again, I won't go over all of my testimony, which you have. But just a few high points.

Again, I would be remiss by not mentioning the dollar. It's critical that we do something about the super dollars, and the only way to get this done is we've got to reduce the U.S. budget deficits. I think also we've got to find a way to better help our California agricultural interests pinpoint and capture foreign markets. I'd like to see more of that aid directed to where the markets really are, rather than countries that just need aid.

I believe also that we should look at ways to lead efforts toward making the GATT more effective. I think GATT is the best framework we have at the present time. I use the term "if you have a lemon you make lemonade," so we've got to find a better way to make lemonade with what we've got. Also, I think we should resist to a greater degree domestic and foreign efforts to mix aid with trade in agriculture. I think the blending of subsidies and swapping of resources has hurt our farmers very badly. I don't believe the answer is to counter with subsidies, although I agree we should have subsidies in our arsenal and use them when we have to, but we've really got to negotiate better mechanisms to breakdown tariff and nontariff barriers.

I think also that we have to be—and Frank Light pointed this out, but we've got to be much more well versed in noticing and stopping foreign trade practices which are unfair—the subsidies that we hear about from the EEC, the individual financing of industries such as Italian and French for their wine industry, tariffs which are unjust, nontariff barriers which are also difficult. We've got to find a better way of bringing those down and meeting those crises before they become crises.

I think also, and lastly, that we've got to find a way for the Government to do better advance work for us and systematically studying our foreign buyer needs and our demands for various crop varieties, and I think also we must target prices more sparingly and more carefully.

These are just a few of the points, Senator, that are on my mind. I would like to add at this point that there is a group of agricultural representatives representing the major agricultural interests in this State currently drafting language which we think will reflect the interests of California agriculture for the trade title of the 1985 farm bill. That will be made available to you probably in about 3 weeks, and we would hope you would find it in your heart and mind to support that particular language. Thank you.

Senator WILSON. Thank you, sir. Mr. McFarlane.

STATEMENT OF WILLIAM F. McFARLANE, CHAIRMAN, CALIFORNIA FARM POLICY COMMITTEE

Mr. MCFARLANE. Senator. Speaking as chairman of the California Farm Policy Committee,[1] this committee was formed last year by representatives of a cross section of farmers and farm organizations dealing with commodities directly affected by general farm legislation. During the past several months our committee has gained support from a broad range of California farm organizations for a foreign policy resolution which advocates a farm bill which moves toward greater reliance in the marketplace and preserves the freedom of the individual farmer to make his own farming decisions.

Our resolution calls on California to unite and use its great political strength to support a national agricultural policy which would first encourage our farm products to move freely to the markets of the United States and the world, and second, to a farm program which would stabilize the economics of our industry without unrealistically high support loans and target prices which result in burdensome surpluses.

Our resolution has the support of the California State Board of Agriculture, California Farm Bureau Federation, California State Grange, California Women for Agriculture, California Beet Growers Association, California Grain & Feed Assocation, California Association of Wheat Growers, Calcot, Ltd., and the Western Cotton Growers Association; and, in slightly modified form, the California Chamber of Commerce, Agricultural Council of California, California Almond Growers Association, and the Independent Rice Growers of California and the California Cattlemen's Association.

Turning to the specific issue of trade, I would first like to express the support of our California Farm Policy Committee for the President's nomination of Clayton Yuetter as the new U.S. Trade Representative. Mr. Yuetter is well versed in the many issues facing agricultural trade and is truly qualified for this very important post. Clayton is also well known to many Californians and understands the agriculture of our State. I urge that his nomination be promptly confirmed.

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[1] See p. 267 for the prepared statement of Mr. McFarlane.

As hearings continue on the 1985 farm bill, our committee believes that trade and the value of the dollar are foremost concerns that must be addressed if the Nation's agriculture is to be prosperous and profitable in the future.

First, on the subject of the value of the dollar, unless our Government deals with the grossly overvalued dollar and brings it down to some more reasonable level, the future will continue bleak for U.S. agriculture. Nationally, as well as in California, fully one-third of our acreage must go into exports. In many California crops, as well as a number of the basic commodities on a national basis, considerably more than 50 percent of our production must be exported. Changes in the value of the dollar versus the currency of our largest trading partners in the last 4 years has roughly doubled our price to foreign customers. Agriculture has compensated for this by massive reductions in prices.

Thus we have a situation where growers around this country are receiving less than the cost of production for their products, while our customers overseas are paying substantially more for our production than they did 4 years ago. The dollar must be brought to a more reasonable level, and the only way to accomplish that is with massive deficit reductions over the next 4 or 5 fiscal years, so that we eventually reach a balanced budget. This action will help bring about a permanent reduction in the value of the dollar, an increase in American exports, and an improvement in the profitability of agriculture.

Second, in the area of international trade, perhaps nowhere is it more apparent than in California what unfair foreign trade practices mean to the agricultural economy. Many of California's crops are sold directly into foreign markets. Many other commodities, including our horticultural crops, could be sold in viable export markets if growers had access to those markets. California farmers, who account for 10 percent of all U.S. exports, need access to presently well protected and heavily subsidized foreign markets. America can no longer afford to open its markets to foreign importers while being exluded from reasonable access to foreign markets.

Our committee requests that U.S. agricultural policy be changed to match today's economic realities in the international marketplace: That an effective trade title be included in the 1985 farm bill. These changes should be incorporated into the 1985 farm bill in the strongest possible language.

Most important is the adoption of a farm program that responds to changes and moves agriculture further toward market orientation. Specifically, the 1985 farm bill trade title should provide for: One, increased international market development for agricultural commodities; two, reciprocal trade policies which eliminate unfair trade practices, including tariffs, subsidization and unfair market restrictions; and three, commitment on the part of the U.S. Government to push for access to all markets not presently open to American producers. Thank you, Senator, for your attention.

Senator WILSON. Thank you very much, Mr. McFarlane. Mr. Barserian.

STATEMENT OF KALEM BARSERIAN, CHIEF OFFICER, PACIFIC COAST GROWERS FOR FAIR TRADE

Mr. BARSERIAN. Thank you, Senator, for the flowering title of chief officer of West Coast Growers of Fair Trade. I am a board member of this newly formed organization. The West Coast Growers for Fair Trade is an association of 16 marketing and bargaining cooperatives. I am the general manager of the Raisin Bargaining Association, a farm bargaining cooperative of 2,000 independent raisin growers, and I'm making this statement on behalf of the west coast group.

Mr. Chairman, you are to be commended for holding these hearings on this important and critical subject, the 1985 farm bill. The problems before us are great in magnitude, the greatest we have ever faced in the agriculture community in the United States. You have stood strong in support of U.S. agriculture and its fight to bring about fair international trade. Your support of grower legislation is just one example of your position on unfair trade practices of our trading partners. This resolution that we have submitted that I wish to make part of this record demonstrates our frustration with Federal policies to bring about fair and—free and fair rules for agriculture products in international trade.[1]

Ideally, all subsidies should be eliminated so that we can operate in a truly free trade environment. The 1985 farm bill should address a U.S. program of countersubsidies to help equalize the unfair advantage enjoyed by the European Economic Community and our other trading partners under their existing subsidy schemes until we bring about a truly free trade environment. Basically, our resolution states that we recommend the utilization of import quota system on commodities where markets are being penetrated through the use of subsidies, and we have made the resolution a part of the hearing record, and I thank you, Senator, for calling these hearings. Thank you very much.

Senator WILSON. Thank you very much, Mr. Barserian. Gentlemen, let me ask you a couple of questions about some of the suggestions that you have made.

Mr. Light, in your written testimony and in your presentation today you mentioned the need for better utilization of existing export credit guarantees in order to promote increased sales. Is there a need for additional coverage? We've got short-term credit and long-term credit. Short term is less than 3 years, long term more than 10. Is there a need for some sort of intermediate terms that would cover that 3- to 7-year period?

Mr. LIGHT. Senator, I guess I find, working with my peers in that area, it's more than the availability. It's a matter of attitude, utilization of programs that are already available. I think that some of the proposals that Senator Helms has in his proposals for the farm bill in that area fall along the lines that most of our constituency would support in the credit area. I think my comments, Senator, I always get a little excited, but we do feel that the administration, as was pointed out to the Senator recently and as you pointed out over 1 year ago, I think the administration just has to get a tougher attitude, and I think sometimes they really don't understand how tough it is out here with our farmers, and if our farmers weren't competitive, it would be one thing, but we still, eyeball to eyeball, can beat any farmer in the world when it comes to productivity and quality, and we've got to have a fair chance, and I think the administration already has some of the tools to effectuate this point.

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[1] See p. 269.

Senator WILSON. What about the USDA's Foreign Agricultural Service Market Development Program? Would you comment on the adequacy of that program from the standpoint of raisin growers?

Mr. LIGHT. Well, I think that if you look at the Foreign Agricultural Service and the way they manage their programs, it's probably the best business organization the U.S. Government has. When they spend money on the market development programs they require performance by the cooperators, and I think very few Government moneys spent, we can't get a better return on your investment. If you look back over the years, though, and you consider inflation, funds available to foreign development have actually diminished when you consider real dollars.

There's great opportunity for Foreign Agricultural Service to be expanded. For example, now we have no programs in Canada, yet the foreign producers of raisins have diminished our share of the Canadian market to where they're a neighbor and we only have 25 percent of that market. We've given it up to the Greeks and the Turks and the Australians. There are broad opportunities if FAS had more funds.

Senator WILSON. Let me ask all four of you a question with respect to a point raised earlier about the need for a study of trade barriers. And there are tariff barriers—I know several of you have been concerned with them, and I share your concern. Additionally I am concerned about hidden trade barriers, hidden subsidies. The administration's farm bill directs the Department of Agriculture and the Office of the Special Trade Representatives to submit a report to Congress identifying foreign trade barriers and recommending the responses to them, which presumably will remove some of the difficulties that I and others have had in securing that kind of information. Do you feel that, with repsect to the commodity that you're representing, a study of that kind is still necessary or do you feel that you have sufficient information to document your cases and concerns now?

Mr. LIGHT. Senator, you mentioned the studies on the wine trade issue. Our grape industry here in California in the past 2 years has spent more than a million dollars of the farmer's money trying to study that issue. Frankly, we desperately need all the help we can to study to document our case, and we feel that we've run up against a stone wall when it comes to Government assistance in getting the study done. As you know, some of the early attempts at the study were blocked by some of our own departments of Defense and State. For example, we were afraid we would stir up the waters too much if we got the facts, so we've had to struggle in our own way, trying to document the case, and really, I've got to be truthful with you, when we get back in Washington and try to work on a fair trade package deal, sometimes we feel like our worst enemy is the administration in trying to pull the program together to get the facts. It's a stone wall that, more than funding, just has to be broken down with attitude, I think, Senator.

Senator WILSON. Mr. King?

Mr. KING. I'd like to respond to that also. Working with a variety of commodity interests in the State, Senator, there is no question that I believe we should have a very, very aggressive program of studying tariff and nontariff barriers, but I believe one of the things that perhaps we should urge, and you could urge in presenting our interests, is that we tend to—as Frank was pointing out, the wine issue is a good one, but we tend to conduct the tariff and nontariff barrier studies in reaction to pressure, in reaction to a crisis, which is all well and good, but what I would like to see, and I think people would agree with me, is that we begin to launch the studies on tariff and nontariff barriers before we get to the crisis stage and begin to identify these things so we can do something about them in a more rational way, rather than in the emotional crises that we usually find ourselves, and I think, bolstering up a point made earlier, that when you get behind the scenes the real tariff and nontariff barriers are really hurting California commodities, we do need the support of the resident officials of the United States and those countries that we're concerned with, and we don't need the resistance of those officials.

Mr. BARSERIAN. Well, with that statement I would say the Federal Government should look very closely at Portugal and Spain coming into the Community. We saw it coming with Greece and we were trying to get people to listen to us as to what is going to happen, but everybody says don't worry, everything will be OK. But until we break down the political problems, I don't know whether funding is really going to do the job.

Senator WILSON. Mr. King, let me ask you whether you have any advice regarding the initiation of a new multilateral round of negotiations with respect to GATT, and specifically in one area that would not relate to agriculture, but concerns an opportunity for success in preventing an abuse of a different kind by a trading partner. Specifically, Taiwan, which has enjoyed considerable advantages under the generalized system of preferences, was guilty of piracy of copyrighted American film and television productions. Last year, as a part of the trade law, we included a provision that threatened the removal of Taiwan from the beneficial preference which they receive under the GSP if they did not correct that situation.

I am advised that in 1984 alone, a billion dollars' worth of agricultural commodities were imported into the United States under the generalized system of preferences, resulting, obviously, in competition and some loss in U.S. domestic markets for U.S. farmers. What do you think of a Taiwan-type approach to retaliation, and do you have any recommendations or advice as to how that should be put forward in a new multilateral round of negotiations?

Mr. KING. To the question, Senator, let me start with the second one first, since it's most recent in my memory. With regard to the GSP, I think Taiwan is a very good example and in my judgement, my personal opinion, as far as California agriculture is concerned and agriculture generally, I believe the current GSP is a fiasco. First of all, as you well know, GSP was formulated really to assist industry. If you look back at the history of GSP, and now I find—I believe I'm correct shall—I think at least 50 percent of the GSP activity is now being used to aid so-called developing countries and not industry and that is sort of a violation of the GSP regulations.

Second, as a good case in Taiwan, the countries which now are under the GSP privileges who came in as developing countries are really no longer developing countries, not only newly industrialized countries but sometimes in terms of competitiveness they're almost industrialized, but I would fully agree with the thrust of your question. We must take a good look at revamping the whole approach of GSP and wrap that in some way into a multilateral form, such as perhaps a new multilateral round, but I would wholeheartedly endorse the thrust of your question there, the thrust of your comment.

The second question, which was your first question, about a movement toward another multilateral round, it is again my personal observation that it is important that we move vigorously to initiate a multilateral trade round because, again, as you know better than anybody else here, we have to for once and for all get agriculture into a multilateral trade form. My own personal opinion—and I'm sure the gentlemen at the table would agree with me—is that one of our problems with GATT is that GATT has never been agriculturally oriented. We tried to make an agricultural mechanism out of something that isn't. So that alone would justify a vigorous approach to a new multilateral round.

Mr. **Barserian**. We might all be bankrupt by the time that conclusion comes around in 5 years, but I agree that we need to get there. We've seen what happens with past rounds and how long it's taken. There won't be too many of us left.

Senator **Wilson**. One final question before we excuse this panel. Mr. Light, could you enlighten us on the status of the various investigations that are being made by the Agricultural Trade and Export Policy Commission on which you serve as a member?

Mr. **Light**. Yes, Senator. Thank you. Just the end of last month the Commission released its preliminary report to Congress, and I was amazed, although we had representatives of agriculture from all over the country, at the unanimity of that group on the points about agricultural trade and export issues, and it fell very closely in line with the things that we've been discussing here this afternoon.

The No. 1 issue by far for the whole Nation, this Commission reports, is the strong dollar. We have to get a national fiscal policy that brings the dollar into some realm of reality in terms of foreign trade, and we think that agriculture itself in the administration should be part of that policymaking fiscal decisionmaking and recognize the impact of that fiscal policy domestically, how that impacts the dollar.

Next, and with very strong unanimity, again, that the Nation needs an agricultural trade policy. The first day of the meeting of the Commission, Senator, we tried to find that policy, and then we finally decided it wasn't worth trying to find it and all we would do is recommend that we have one. Then we asked Congress not to wait for the farm bill to eliminate cargo preference. The cargo preference laws are inhibiting our ability to export.

We also endorsed a strong policy on contract sanctity but we didn't think it was adequate to leave it up to the administration to decide whether or not they could terminate trade contracts. We think our trading partners need to know that only in cases of war would a trade contract be severed. We also recommended that although some of the politicians thought we should stay out of domestic farm policy, we felt that domestic farm policy, especially having to do with price programs, et cetera, inhibit the foreign trade and we should go to a more market oriented domestic policy, but we urged very carefully that any domestic farm programs had to be coupled with strength in the level playing field, the fair trading part. You can't back off of domestic farm programs without making sure that the farmers have the right to fair trade, and I think that fairly well summarizes the Commission's recommendations, Senator, and I think you would be pleased with the general consensus of all of agriculture and how it fits not only the Midwest but it even fits our philosophies here in California.

Senator WILSON. From what you're telling me, I think I would be, too. I would point out that in the Helms version of the trade title the application of cargo perference to agriculture is eliminated.

Mr. McFARLANE. Senator, if I might, following my testimony, I should have introduced a young lady who is listed on the program, so at this point I would like to improve the appearance of this panel by relinquishing my seat to Susanne Hutchinson of the California Chamber of Commerce.

Senator WILSON. Reluctantly we will excuse you, Mr. McFarlane. Welcome.

STATEMENT OF SUSANNE HUTCHINSON, CALIFORNIA CHAMBER OF COMMERCE

Ms. HUTCHINSON. I am Susanne Hutchinson with the California Chamber of Commerce.[1] The chamber would like to go on record as supporting the presentation by Mr. McFarlane.

The chamber urges that a strong and effective trade title be included in the 1985 farm bill. We think that such a title should provide a fair opportunity for California agricultural products to move competitively to the world. Thank you for your consideration.

Senator WILSON. Thank you very much for your presentation. Ladies and gentlemen, we thank you very much and we are very grateful for the contribution you have all made in being here today.

Panel three consists of Henry Voss, the president of the California Farm Bureau Federation; Walter Cucuk, president of the Fresno County Farm Bureau; Michael Stuart, the vice president of Western Growers Association; and Miss Laurena Johnson, president of California Women for Agriculture.

Mr. Voss, we will let you lead off.

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[1] See p. 269 for the prepared statement of Ms. Hutchinson.

STATEMENT OF HENRY J. VOSS, PRESIDENT, CALIFORNIA FARM BUREAU FEDERATION

Mr. Voss. Thank you, Senator. I think you have a written statement, so I'll try to highlight a few of the issues in the interest of time.[1]

I would like to start out with the fact that California, like the rest of the Nation, has experienced decline in their exports, dropping from $4.2 billion in 1981 down to $3.1 in 1983. Our farmers are as concerned as other parts of the country as far as the effects on trade, world possession, local debt, strengthening of the U.S. dollar, U.S. price support policies, growing protectionism, and unfair trade practices. For California producers of specialty crops, however, the strong dollar and unfair export subsidies have also meant a loss in domestic market share and profitability as well. It's our concern that U.S. foreign policy and defense considerations also contribute to the decline in agricultural exports. The share of foreign economic assistance used for good aid has shrunk since the early 1970's.

Budget expenditures on foreign military assistance have enabled nations such as foreign military assistance have enabled nations such as the EEC and Japan to direct public funds to their farm support programs rather than to military programs. In the United States, however, large increases in defense spending have exacerbated the budget deficit, increasing interest rates and driving the value of the dollar to new heights. By providing military might for NATO countries and other allies, and not requiring those countries to contribute their fair share, we are harming our agricultural economy.

We support U.S. negotiators in their efforts to resolve trade issues. We recognize that higher living standards depend upon an increased economic growth in the United States and its trading partners, together with mutually beneficial trade among nations. We support efforts to liberalize international trade, but it is becoming more difficult for our farmers to maintain a freer trade stance as protectionism surfaces all over the world and unfair trade practices are used by our competitors. The U.S. Congress has taken note of this capture of markets by the use of export subsidies and, through section 1201 of the Agriculture and Food Act of 1981, directed the Secretary of Agriculture to formulate a special standby export subsidy program for possible use to neutralize the effects of foreign subsidies. However, thus far, that authority has rarely been used.

California farmers, particularly the producers of fruits, nuts, and vegetables, have been concerned with a need for better access to the Japanese market. Discriminatory tariffs, burdensome phytosanitary restrictions, and quotas greatly limit our potential to this lucrative market across the Pacific. In the United States we do not dictate our rules for pesticide use on foreign producers. Import of foreign produce must meet reasonable chemical residue tolerances, but we do not require the foreign producer to abide by U.S. production standards. In many of our foreign markets today we are required to live by their standards.

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[1] See p. 275 for the prepared statement of Mr. Voss.

Two of the traditional ways of enhancing exports have been through the judicial use of Commodity Credit Export Programs and through the use of Public Law 480, or the Food for Peace Program. These programs should be continued and improved. We recommend that Public Law 480 export tonnages be doubled over the present levels and that multiyear funding be made available to Public Law 480 recipient countries. In view of the need for food which has been made worse by the African political and famine situation, we believe that a much stronger Public Law 480 Program is justified and will lead to better U.S. cash markets as economic developments improve with recipient countries.

We in California see a need to explore the possibility of extending Public Law 480 to include our specialty crops. Items such as nuts, dried fruits, canned fruits, vegetables, should be considered for use in the Food for Peace Program.

Regarding commodity credit, export credits, it is regrettable that the credit revolving fund, which was part of the 1981 farm bill, has never been funded nor activated. There are still valid reasons for incorporating the revolving fund in the 1985 legislation. An intermediate credit program is needed somewhere in the term of 3 to 7 years to provide for—as provided in the agricultural trade act of 1978. This legislation should be more fully utilized.

We believe the Blended Credit Program, which unfortunately, has been saddled with the requirement of cargo preference, needs to be made a part of the new farm legislation with an exemption from cargo preference.

The relatively high value of the U.S. dollar has compounded California producers' difficulties with low-priced imports and comparative imports. This must be a factor in designing any government program including farm bills in order to reduce the Federal deficit and restore more reasonable national value of the dollar. Our trade must have the tools they need to gain better market access and resolve unfair trade practices. Export subsidies that erode our market share overseas threaten the profitability of domestic producers, despite the efforts to address these legal programs through GATT.

In supporting farm legislation which calls for greater market orientation and flexibility, we must also ensure that our agricultural interests are protected from unfair trade practices by our competitors. In order to recapture markets lost to subsidized exports from competing nations, we should consider what might be called a Bonus Export Program. Under such a program, bonus tonnages of farm commodities would be made available from Commodity Credit Corporation owned stocks to lower U.S. export prices, thus offsetting the effect of subsidized exports.

I believe that in previous legislation the production side of the equation has been given more attention than the export side. In this new farm bill, we need to focus strongly on the export side.

We must be more aggressive in the export market. This will require the devotion of considerable resources to export. But in the long run, the dollar spent on enhancing trade will be much more effective than domestic support programs. By expanding exports, curbing unfair import practices, our agriculture industry will have a chance to grow and excel on its own merit. Thank you, Senator.

Senator WILSON. Thank you very much, Mr. Voss. Mr. Cucuk?

STATEMENT OF WALT CUCUK, PRESIDENT, FRESNO COUNTY FARM BUREAU

Mr. CUCUK. Good afternoon, and welcome to Fresno County, No. 1 county in the Farm Bureau, No. 1 Farm Bureau in the Western United States. My name is Walt Cucuk, and I am president of the Fresno County Farm Bureau. We're glad you could be here to hear the testimony here today.

Fresno County has about 1.4 million acres irrigated to farmland, and it's estimated that 1 out of every 3 or 4 acres is producing a crop for export. Raisins and cotton are No. 1 and 2 crops in Fresno County each year. Sometimes they change places. They are the two that are dominant. In exports in Japan and elsewhere in the world for raisins, 60,000 tons of a crop of 240,000 tons being exported. This breaks down to 30,000 acres of the 160,000 in Fresno County and about 200,000 acres of Thompsons grapes around the valley. This breaks down even further to 15 to 18 percent of the acreage of the raisin grapes being exported. Value of that amounts to some $26 million, so we have a big stake in exports just with that one crop.

Furthermore, the valley and the county export almonds, roses, plus some livestock. Cotton as part of the export picture is even more significant, with three out of four bales being exported. The last annual figures for cotton showed an export price tag at about some $319 million. Fresno County's share is 38 percent of the State's cotton total for exports and 76 percent of the total dollar volume, for $242,500,000, in round numbers. It is obvious that exports are an extremely vital part of the No. 1 farming county in the Nation. Of course, efforts are underway to expand the numbers whatever and wherever possible, and we in Farm Bureau are working to do just that. We feel it imperative with the new farm bill that very strong emphasis be placed on protecting and strengthening the export capability, not only in our farming in Fresno County but for farmers everywhere. We realize this is going to be a tough job too, however, every effort must be made to accomplish this goal, and structure of the new farm bill with the reality of the farming world. Thank you.

Senator WILSON. Thank you. Miss Johnson.

STATEMENT OF LAURENA JOHNSON, STATE PRESIDENT, CALIFORNIA WOMEN FOR AGRICULTURE

Ms. JOHNSON. Thank you, Senator.

I am Laurena Johnson, president of the California Women for Agriculture, and I'm here today representing the 5,000 members of our organization, many of whom are producers, and I would say probably every one of the almost 250 commodities raised in California are represented in our organization. Also, we have quite a number of nonproducers, and I think it's important to note that they are consumers living in urban areas who understand the philosophy that agriculture is food and anyone that eats should be concerned about agriculture. We don't represent any one commodity, any specific commodities, but we take an overall philosophy that what affects one segment of agriculture, affects all of us.

I have presented my written testimony and have outlined several specific ideas in it that we think should be included in the 1985 farm bill.[1] In my short time that's alotted to me today I would like to just touch on a couple of the points that we feel very strongly about.

You know, our American farmers, and in particular our California farmers, are perhaps the most productive people in the entire world, and perhaps that has been part of our problem that we're facing with some of our financial troubles we're in today. However, all we need—I shouldn't say "all," but one of the main things we need are markets. We need an expansion of both domestic and foreign markets and we feel like the 1985 farm bill must have a provision for fair marketing. And that should be both here domestically and in foreign markets.

I think we can all agree from what you've heard today that it's totally unfair for a commodity to come into the United States that has been subsidized and come into our marketplace and to be put in our marketplace at a cost less than what our farmers can produce it. That is not fair. You know, our farmers are not looking for a handout. They don't want charity, they don't want a handout. What they're looking for is a fair competition.

The other point that I would like to touch upon briefly is the fact that imports should have to meet the same health and quality standards that our domestic commodities do, and as you also know, the pesticide requirements, particularly here in California and our specialty crops, are some of the most stringent in the world, and it is costly to our farmers to be sure that they abide by those regulations, but they do abide by them, and it's unfair to have commodities come in here that pesticides and other chemicals have been used in foreign countries and do not have to meet the same standards as those here in the domestic market.

And in the area of quality, you know, most of our farmers, particularly in our specialty crops, again, contribute to promotion, but where they are promoting a quality product, and I think a good example we've had this last year or so have been with pistachios and apricots, and when Iranian pistachios flood our market, when California pistachio growers have worked hard and long to establish a quality product, a quality reputation, and these other commodities come in that are tremendously substandard quality and ruin the market, and with apricots I know I talked to housewives and consumers that have bought California dried apricots and then have gone back to the market and purchased apricots that have been imported from Turkey, and when they come up with a mouth full of camel hair it's ruined their entire appetite for any type of dried apricots.

I'm sorry, Senator, but that is true, that's what is happening. I think that points out to you the need for regulations to protect what we have going here.

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[1] See p. 277 for the prepared statement of Ms. Johnson.

I want to thank you again for the opportunity. I would charge you to continue to be a strong and vocal advocate of California agriculture, to continue to tell all of those people in Washington, D.C. that there is agriculture west of the Rocky Mountains and that our commodities are an important part of the economy, and if I or California Women for Agriculture can be of assistance to you or your committee, please let us know. Thank you.

Senator WILSON. Thank you very much, Miss Johnson. Mr. Stuart?

STATEMENT OF MICHAEL J. STUART, VICE PRESIDENT, WESTERN GROWERS ASSOCIATION

Mr. STUART. Senator, thank you for providing Western Growers Association with the opportunity to present our organization's view on the trade title of the 1985 farm bill.

The fresh produce industry and the people that work in it have always been market oriented. Supply and demand has been and shall be a way of life, so although a market oriented farm bill may be a departure from previous support oriented bills, to the fresh produce industry it's a welcome departure.

The exportation of fresh fruit and vegetable commodities has become a vital element in the overall marketing strategies of our members. And we have said on more than one occasion that the development of new markets, as well as the maturing of already existing foreign markets, is the key to the long-term survival of the fresh produce industry in the United States, particularly in the West.

We also believe export market growth is essential to the industry's overall well-being. We are, therefore, terribly concerned with the stagnation that has occurred in recent years. As you well know, agricultural exports have suffered since 1981. And, although 1984 will show a 9-percent increase in dollar sales, actual volume declined for the fifth year in a row. Horticultural products declined in both value and tonnage in 1984. In fact, the United States imported more fruit, vegetables, and nuts last year than it exported, about $336 million more.

Consequently, we believe that a farm bill with a trade title couldn't come at a better time. And, since time is a precious commodity here this afternoon, I would like to concentrate on two specific areas of concern—market access and market development.

Many trade experts, especially those from Japan, say the strong dollar is responsible for our increasing trade deficit, and certainly many of our problems can be attributed to the strength of our currency in relation to that of our overseas customers. But it is by no means the only culprit. Nontariff trade barriers and discriminatory trade practices by our competitors are every bit as much to blame.

The United States has long advocated free trade in it domestic markets and in the international marketplace. However, free trade must be a two-way street. The United States cannot afford to adopt a unilateral free trade policy for agriculture when our competitors and trading partners abroad will not reciprocate. To do so jeopardizes our farmers' ability to compete, not just for foreign markets but for their own domestic markets as well.

We believe title I of the proposed farm bill is a good first step toward breaking down many of these barriers to trade. However, it is just the first step. We must not consider removing any protections on our products until equity is achieved in the market, and, in our estimation, we are a long way from an equitable situation. Our Government must recognize this and take an aggressive approach to the resolution of this imbalance, not by adding more protections but by negotiating the elmination of barriers and discriminatory trade practices in other countries.

No discussion of our Federal agricultural export programs would be complete without mention of the Foreign Agricultural Services Cooperative Program. It is, we believe, an excellent partnership of private industry and Government. We not only believe that the farm bill should call for the continuation of this important program, we further believe that Congress should take action to enhance the program as well.

Statistics kept by the FAS show that our competitors, particularly for markets in the Pacific Rim, outspend us in market development against total export value by more than 6 to 1. Australia, for example, outspends us dollar for dollar. In 1983, Australia spent $72 million for export market development against their total exports of $8 billion. The United States, on the other hand, spent only $57 million for market development against our total exports of some $35 billion. In other words, Australia outspent us in market development by some 20 percent, while their export value was less than one-fourth our total.

If we are to be committed to increasing both the value and volume of our agricultural exports, then we also must be committed to meeting the competition in the market development of our commodities by supplementing FAS funding in key markets.

Western Growers Association also believes that teeth must be put into the Department of Agriculture's policy towards promoting the export of high-value and value-added commodities. This could be done by increasing market development funds allocated to horticultural commodity groups, and by permitting these groups to participate in programs such as Public Law 480, which currently are restricted to more basic commodities.

In summary, Western Growers believes the 1985 farm bill should legislate a relief program of a new kind. That is, our Government must actively and aggressively pursue the elimination of the barriers and trading practices that prevent our commodities from enjoying open access to world markets, and then provide our industry with the cooperative support necessary to properly develop these markets.

Senator, I thank you for the opportunity to present our views this afternoon, and I look forward to working with you and the respective members of the committee as deliberations continue.

Senator Wilson. Thank you very much, Mr. Stuart. Let me go back to Mr. Voss' testimony. Knowing something of the history of the Farm Bureau's attitudes toward free trade, I would say that both your testimony this afternoon and also that of Mr. Barserian, representing a consortium of growers, does indicate a high level of frustration. I find this frustration understandable, and I think it's found expression in a recent 92 to 0 trade-related vote in the U.S. Senate.

On page 6 of your testimony you are urging the use of the standby export subsidy program. Is this the first time that the California Farm Bureau Federation has advocated that program?

Mr. Voss. Yes, Senator. We've advocated the last several months a push back if somebody pushes at us, but I think the frustration is to the point we have to do what the rest of the world is going to do if we're going to change things.

Senator Wilson. Reluctantly, I think a lot of us have come to the end of our patience and recognize the necessity for taking the strongest possible measures. Both your testimony and that of Miss Johnson, on behalf of the California Women for Agriculture, have dwelt upon the problem of the difference in health standards. We are held to the standards of our foreign trading partners, but have not only afforded them liberal access to our markets, we have been very lenient in terms of holding them to standards which, with a rather graphic demonstration Miss Johnson indicated were far below our own. Would both of you care to try to quantify the true impact of this policy? The qualitative impact you've made indelible. I'm also interested in focusing on the many barriers to foreign markets for our produce resulting from the health standards of other countries, and any specific examples which you care to give either now or later for the record. What I am looking for are both explicit standards that are unreasonable and also any hidden barriers.

These quality and health standards, I think, are an area that has received much attention as imports have increased. This is particularly important for commodities that California produces, which are also grown in other parts of the world where the standards are not the same. Consequently, these foreign products are coming into the United States with distinctly less quality, and I share Miss Johnson's expressed concern that it may pose a threat to our own industry, both economically in sense of cheaper competition, but, also, in terms of actually exposing California agriculture and specific crops to parasites and diseases from which we have managed to keep our crops free. So let me invite you now to give some examples, and I would very seriously urge that you go back to your organizations and seek from them as many specific examples as you can provide.

Ms. Johnson. Thank you. I appreciate your concern. Sometimes we think we're the only ones out there that have the concerns, and I appreciate your sharing that. And as I said, we don't represent any specific commodities, as I pointed out, and these examples that I've given to you are ones that have come to me out of concern both from the producer's standpoint who feels, again, a person has put money into a promotion to promote that quality product. Once the consumer partakes of one of these terribly inferior commodities, they're not going to go back. So that is hurting that commodity and that producer economically, so I welcome the opportunity to provide you more information and we will do that. Thank you.

Mr. Voss. Likewise, Senator, we'll provide you some written examples, but I think that some of our concerns are problems that we've had with Mexico in the recent year or two as far as some of the avocado diseases, where we have no way of really being guaranteed that avocados produced in a disease free area or avocados produced in a known disease affected area are not intermingled and then shipped out of a clear area into the country. Some of those kind of problems are of concern, the way the regulations have been used as far as those commodities in recent months.

We're concerned with the fact that we're not allowed to use DDT in this country. It's used in many parts of the world today still. Those products are imported into this country. We get reports from time to time of DDT showing up in testing which American farmers, California farmers get blamed for but has come in, we believe, in some of the imports brought into this country. That type of effect on an industry has an indirect economic impact because it tarnishes your image. That has some real long lasting effects that we're concerned about.

Senator WILSON. You are anticipating my next question, in fact, because the corollary to this whole business about health standards is the fact that U.S. growers are obviously held to operate under U.S. agricultural regulations that relate to prohibited pesticides, and fungicides. The point you make I think is a very good one. Has the Farm Bureau any recommendations as to how we might enforce the same standards on imports as are required of U.S. growers? My information is that frequently, by the time the produce arrives in this country, the evidence of pesticide use has dissipated. We need to give some attention to that problem: How we can first detect it, how we can effectively deal with it, how we can enforce the same quality standards on imports that we enforce upon our own products.

Mr. VOSS. I think we have concerns that we could have more vigorous testing of our sampling of commodities coming in. We understand the financial implications of that, but many of the diseases or pests that we have spent millions of dollars on have come through check points, and the evidence indicates that we're not really using a sampling method quite often that mathematically would assure us that things are as pure as we may be saying they are.

Senator WILSON. The point that you raised brings up the question of the extent of testing we do abroad before we permit the importation of the products. If we are importing pistachios, obviously we don't do much in Iran, but I'm wondering, really, what we do that would allow us sufficiently early warning so that we can act to keep out or to otherwise enforce the same standards?

Mr. VOSS. I think, Senator, the agriculture commissioner of Fresno County is here and he could probably give us specific information. Mine would be general.

Mr. CUCUK. Cosmo Insalaco.

Mr. INSALACO. Thank you very much, Senator. Appreciate the opportunity to comment on the question.

Senator WILSON. Could we just for the record have your name again?

STATEMENT OF COSMO INSALACO, FRESNO COUNTY COMMISSIONER OF AGRICULTURE

Mr. INSALACO. My name is Cosmo Insalaco.

The sampling and testing that is provided for farm products coming into California is definitely not of a standard that we require for our own commodities that are produced here and exported out of California. We have some examples in the recent production of Chilean fruit arriving into California that has been inspected by State and county inspectors, and a large percentage of that commodity of fruit has not passed the standards. This is the quality standards, the sugar standards, the grade standards that we require in California, and because of this, a large percentage of this product has been exported to other States.

I think the detriment of this type of production is that this fruit coming in to California does reach our marketplaces at some point and many times the consumer, when they purchase fruit that is not palatable and that is not pleasant to eat, it can deter a consumer from buying our own California products when they come into market. In addition to that, we have a history in California of receiving a lot of pests from other countries, and we have a natural barrier in the State of the mountains and the ocean, but these pests have caused us, as President Voss indicated, a lot of dollars. We are very open to help other countries in their growing embryonic culture, but certainly this poses a continuing problem, and I think recognition in that area is something that should be looked at.

The other side of the coin is when we make an attempt to export, for example, nectarines, as you heard earlier in the testimony to Pacific Basin, we are rejected because of a very common pest and we still have the highest quality standards, both for insects, diseases, and pesticides of any agricultural country in the world, and we see that as being used as a trade barrier in some instances.

Senator WILSON. Thank you very much, sir. Appreciate that.

I note in your testimony, Mr. Voss, that you have answered the question that I asked earlier about the desirability of intermediate export credits and that you would favor the availability of such a mechanism. You've also urged the exploration of barter opportunities. That's an intriguing idea, particularly if we could find somebody who was serious enough about the problem of lagging nutrition in their own country and who also has oil or some other commodities in short supply. Can you provide for the record any experience which California farmers have had seeking to initiate bartering deals privately?

I understand that there has been some activity on the part of California farmers that has led them to pursue some barter deals involving a swap of U.S. grown products for foreign-produced farm commodities. These have occurred apparently without any Federal encouragement or governmental activity. I would be interested in learning more about that and determining the extent to which it may realistically provide an opportunity to get rid of some of our own surplus commodities that we are paying a lot of money to store and stockpile. I don't think the Federal Government has done very much in this area, so we would be interested in anything that the Farm Bureau Federation can supply by way of information and experience.

Mr. Voss. Senator, I don't think that there has been an awful lot accomplished in this area. We have looked at it pretty seriously the last several months. There are firms and individuals who have done some bartering over the past decade, two, three, four party trades around the world, very sophisticated trading, and I think probably unrealistic to believe that a lot of us in agriculture will be able to participate to any great degree in the immediate future. I think that we have had a group looking at possible barter by putting together segments of the petroleum industry and agriculture, so far only in an exploratory manner involving the University of California, but the barriers appear in areas that really need food, or the type of commodities that we could barter are normally those that are in surplus production. The interstructure in countries needing those to handle it, versus a raw commodity that may be needed either in this country or somewhere else traded around, is going to take, I would believe, some assistance of Government, as well as the private sector, if we're ever going to move in that direction. I can't specifically say what at this time.

It's my understanding there was legislation 10 years ago that the Federal Government was involved in providing some of the intermediate credit in bartering activities to be put together. There doesn't seem to be anyone readily available at least that participated in those programs. The university is researching some of those. Hopefully we could give you a little more information in the months to come.

Senator **Wilson**. I would be interested in whatever information you have. At first my reaction was that it might really be difficult to supply, but I think in certain situations, where you have a developing country with mineral wealth or strategic materials in short supply, if they are really serious about trying to feed their people, it would seem that we might have the opportunity to construct some kind of exchange.

Mr. Voss. One of the problems is when you start to explore that, those countries are usually deficient in the capitalization or the lack of credit to develop the interstructure to be able to deliver, and I think that's where I think some Government intervention may be needed if that type of thing is really going to work.

Senator **Wilson**. You're probably right.

Your comments on page 13 of your testimony regarding bonus tonnage I also think are very interesting and worthy of further exploration. You state: "We are stockpiling great surpluses that have been produced in past years by the existing system." I take it what you're suggesting is something in the way of a loss leader in conjunction with a regular sale, and it could, for example, involve a sale of fruit or nuts, accompanied by a bonus of dairy products.

Mr. Voss. That's what we visualize, and it wouldn't necessarily have to be used to supplement the sale of wheat. You might use wheat to create the loss leader, if you would, of fruit and nuts, some other commodity.

Mr. **Cucuk**. That's being used in the raisin industry in Japan. They buy so many tons and get so many at a reduction.

Senator WILSON Well, we thank you very much and we'll look forward to receiving any additional written testimony that you care to supply. Thank you very much.

Our next panel consists of Alan Freeze, the president of the California Association of Wheat Growers; Jack Stone, the president of the California Cotton Growers. I understand that Mr. Weldon is here today, Dan Weldon, in place of Alan Freeze. Mr. Weldon is the executive vice president of the California Association of Wheat Growers. Glad to have you with us.

STATEMENT OF DAN WELDON, EXECUTIVE VICE PRESIDENT, CALIFORNIA ASSOCIATION OF WHEAT GROWERS

Mr. WELDON. Thank you, Senator. We couldn't drag Mr. Freeze off his tractor out there today. He's busy out there on the farm, which I'm sure you understand. I am the executive vice president of the California Association of Wheat Growers. I am not an expert necessarily on international trade, but I will present Mr. Freeze's statement and try to answer any questions you might have.

I first want to commend a couple of efforts going on in our State that I think has brought California agriculture into a much more unified position than we've ever been in the past, and that is this California Farm Policy Committee, as well as the California Commission on World Trade. You've heard representatives from these organizations. We endorse those and think that it helps strengthen our position, especially in development of trade title of the the 1985 farm bill.

Let me get right into the area of wheat. California wheat, competitively priced, can hold its own against wheat grown anywhere in the world, but our wheat is currently being priced so far out of the market that nothing short of dramatic and wide ranging programs will help. We endorse the Loan Program now being advocated by the National Association of Wheat Growers, which features a repayment rate based on market conditions at the individual State level. Such a program would promote the movement of grain into export channels instead of tying up our Nation's wheat in Government inventories and farmer-owned grain reserves.

Another concept that both our California Wheat Growers and our national organization agree upon is the wisdom of something along the lines of a standby export Bonus Bushel Program. We envision this subsidy for exported wheat to be used as a strong retaliation tool against our competitors, especially the European Economic Community member nations. They must be taught that the United States will not be taken unfair advantage of. We would suggest that this sort of tool be in place and used only selectively to show that we mean business, like we did with Egypt not too long ago. The Bonus Bushel Program would work to offset the problem of our overvalued dollar by supplementing the sale of wheat to a given buyer with additional wheat from the Government's stockpiles. The idea is to overcome the differences between currency values of the specific country in which we are trading.

One of the most infuriating interferences to exporting wheat is the current problem of cargo preference. A district court ruling has made it necessary that agricultural exports under the USDA's

Blended Credit Program are subject to be carried on U.S. flagships. The USDA has put a hold on all transactions involving export programs, including Public Law 480. Should this situation continue and become permanent, the—at least 30 percent would be added to the landed cost of U.S. wheat, according to the USDA. There is no doubt that this situation would eventually shut down most U.S. wheat sales in key world markets.

Wheat growers of California urge you to do two things: At the very least, exempt CCC related exports other than Public Law 480 and USDA export promotion programs from cargo preference. Second, let's work to get the USDA out of subsidizing our maritime industry. Let the maritime industry justify its own subsidy based on its own merits. Certainly, the wheat growers of California believe a complete exemption for agricultural shipments under cargo preference will allow us to trade more equitably with our customers.

You may not be aware of the fact that California wheat suffers from an exclusion from participation in Public Law 480 programs. Since the USDA subsidizes freight on the condition of the lowest landed cost, this criteria forces larger tanker size vessels on foreign buyers who often cannot conveniently handle that size ship in their ports. So unless Public Law 480 and other USDA export incentive programs are modified to allow for more economical shipments, California will not benefit from such a program.

There seems to be a dangerous number of legislative attempts in the Congress at the present time to increase protectionist policies. In the area of textiles and apparel, legislation has been introduced that would place a very low quota on the amount of U.S. imports. The direct result of this action is that there will be a retaliation against our international wheat sales. Wheat is the most visible target to retaliate against. At a time when our trading position is as weak as it could possibly be, there is no justification for expanding specialized protectionist treatment to domestic industries who happen to have large political action committees.

A more specific example of how U.S. wheat sales have suffered because of protectionist policies occurred recently when U.S. diplomats pressured Taiwan to reduce their rice exports. Taiwan was provoked to the point where they have now begun seeking wheat elsewhere and are rumored to be finalizing agreements with Uruguay. We strongly encourage Members of the Senate Agriculture Committee to aid in the development of a consistent trade policy. You cannot say you are in favor of a fair trade policy and at the same time allow an increase in our country's steady movement toward protectionism.

Thank you very much.

Senator WILSON. Thank you, Mr. Weldon. Mr. Stone.

STATEMENT OF JACK STONE, PRESIDENT, WESTERN COTTON GROWERS ASSOCIATION

Mr. STONE. Yes, sir. My name is Jack Stone. I am a cotton farmer of the area and I am president of the Western Cotton Growers Association.[1] Our organization represents about 3,000 cotton farmers in California, the second largest cotton producing State in the Nation.

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[1] See p. 278 for the prepared statement of Mr. Stone.

For the past two decades, we have been trying to help write a Cotton Program that is truly market oriented, one that would be world competitive and one that would not build up huge Government stocks.

Back in 1933, when the United States first started to cut back production—which no other nation, by the way, has ever done as a matter of national policy—the total world consumption of cotton was 27.5 million bales, of which 13.8 million bales was ours, and we had 50 percent of that market. By 1963, world consumption had increased to 50 million bales, but the U.S. share had declined to 13.1 million bales, or 26 percent of that consumption. This trend has continued, and now, in 1984, world consumption reached 69.7 million bales, while the U.S. share amounted to only 11.8 million bales, or just 17 percent of the world market. That's not good progress, we don't think, that's a bum way to run a railroad, and we think now is a time to write a better farm bill, one that has a good title I section in it that we've been talking about here today.

To go along with some more of that kind of thought, we here in the United States raise twice as much cotton as we need, therefore half of our cotton has to be exported, and there can be no floors in our Farm Program that we may write here soon that will consistently cause our cotton to be underpriced by foreign competitors. We must be definitely market oriented and world competitive.

Of course, the high price of the dollar I think has more to do with this problem than any other problem that we may have. We've been talking about that a lot today, there is no use pushing it any more, except that although the cotton growers have maintained a share of the export market, it is being forced to do so at a loss, which if not corrected soon, puts us into bankruptcy. A lot of our farmers are already there, so we've got to do something about it.

One of the items is uncontrolled foreign textiles. The U.S. domestic cotton market is being devastated by textile imports. In 1983 alone, not only did textile imports displace $550 million worth of American grown cotton, the reduced demand caused by these imports lowered the price of cotton an estimated 9 cents a pound. The lost markets and lost revenue on cotton sold totaled $900 million. That's bad news. And it's ironic, I think, to notice that the American cotton farmers spend $20 million dollars a year for research and promotion through their Cotton Incorporated Program to increase the consumer demand of cotton, and we notice now that a lot of this effort goes forth to sell the imported cotton. When I talk to somebody into finally buying a 100-percent cotton shirt, I find that it's made in Taiwan. That hurts.

We're working on things to stop this. The Western Cotton Growers Association joins with the National Cotton Council in urging the Secretary of Agriculture to undertake a section 22 action to relieve the interference of textile imports with the operation of the Government Cotton Program and to prevent further reduction of domestic cotton consumption due to these imports. We're working on that. And we hope in the new Farm Program you both can put in there negotiations that will call for U.S. Government officials to negotiate forcibly and firmly to assure that U.S. cotton, cotton seed, and other products have a reasonable access to foreign markets and urge the administration to designate cotton industry representatives to act as advisors to U.S. negotiators.

Then there is the CCC revolving credit fund. We support the authorization of an export credit revolving fund and credit guarantees, unlimited to countries with good records of timely loan repayments, as well as full and adequate funding of foreign market development for agricultural products. In addition, CCC funds or an equal value of commodities should be used for export activities to assist in the export of U.S. agriculture commodities adversely affected by credit subsidies or other unfair trade practices of foreign countries.

Finally, as we move to more market oriented farm legislation and elimination of high loans and target prices, farmers are going to depend on international trade to an even greater extent than currently. I want to again emphasize the importance of this country's undertaking strong negotiations with our trading partners, to give American agriculture a fair market in which to operate.

We in cotton, and I'm sure those in most other commodities, are prepared to do business in a market oriented system as long as we know we're going to get a fair shake in the import-export market. Thank you.

Senator WILSON. Thank you very much, Mr. Stone. Let me ask you a question. Where does most of your export cotton go? What is the market?

Mr. STONE. To the East, Japan and Korea, places like that.

Senator WILSON. Do you see a certain inconsistency in your testimony here? I think that you're talking about half of your crop going overseas, and it's going to people who are obviously using it to make textiles.

Mr. STONE. Yes.

Senator WILSON. Textiles that they're going to be sold in, among other places, the United States. Therefore, I think there is some difficulty in our demanding, as we have a right to do, access to foreign markets, and simultaneously being able to protect and restrict what we let in here.

Mr. STONE. We're not recommending unfair protectionism. We're recommending fairness, and we know that the main tool that we have here to correct this thing is to be world competitive and to produce a good product. We only talk about imports, controls and so on as a fair operation. We can't say you can't ship here but we can ship there. No way. Got to be a two-way street.

Senator WILSON. Has a petition actually been filed with the Secretary of Agriculture under section 22?

Mr. STONE. No. I think they're about to, but there's a bill in the hopper put forth by Senator Helms and a couple of other Senators to enforce the Multifiber Act, and we figure that if that goes through they will probably withdraw that threat, we'll call it. This has been really devastating to our local mills and those people are really pushing that sort of multifiber control, not stopping imports but, rather, controlling them.

Senator WILSON. Mr. Weldon you're quite clear in your testimony with respect to cargo preference. Let me invite you to submit for the record whatever evidence you may wish that would document specifically how cargo preference has added to the cost of wheat exports. If you are aware of any examples of any sales that have actually been lost due to that cargo preference, it would be a very useful thing for the record.

Mr. WELDON. I understand the record will be held open for additional time, and not being an expert in that area, we'll provide that for the committee. I do know that our U.S. flagships oftentimes are twice as expensive as other competing carriers, and this forces a lot of inequity in the system, but I will provide the specifics for you at a later date.

Senator WILSON. In your testimony you said that there seems to be a dangerous numer of legislative attempts in the Congress to increase protectionistic policies, and certainly some have been introduced. Not very many have gotten very far. The domestic content legislation, for example, does not have much future in the Senate, or at least has not had much success to date, and people like me have opposed it. I would continue to oppose it. I think that even the voluntary import quotas on Japanese automobiles have cost American consumers $1,200 per automobile that they might otherwise have not had to pay. However, as I have been saying for about 2 years, trade has to be reciprocal. If we're going to afford liberal access, we must be given equal access, and every time we make a trade concession we should be getting something for it. I assume that's the real thrust of your testimony today on behalf of the Association of Wheat Growers.

Mr. WELDON. Exactly. Has to be a two-way street.

Senator WILSON. This Public Law 480 exclusion that you've talked about is a de facto exclusion, not in the law. You're saying as a practical matter, this requirement forces the use of tankers and ships of a size that are simply not practical for California ports.

Mr. WELDON. And we don't have an answer for you to that, except that we hope that the committee and yourself can explore ways where we might be able to participate in Public Law 480 shipments, because we think it's a solid and fine program that should continue on.

Senator WILSON. Has any California wheat gone into the Public Law 480 Export Program?

Mr. WELDON. I understand it has, but it's a minor amount of shipment that is not—most of our shipments do not go via Public Law 480.

Senator WILSON. Do you have any idea how much total U.S. wheat has been a part of the Public Law 480 Program?

Mr. WELDON. No, I don't. I'm sorry.

Senator WILSON. We can find that out. Has Calcot, Mr. Stone, looked at export PIK as a device that would assist you in enhancing cotton exports?

Mr. STONE. I haven't talked to Calcot about export PIK. We think PIK is a good idea along that line, rather than selling it on the market, but that's as far as I go on it.

Senator WILSON. How about the Western Cotton Growers constituency?

Mr. **Stone**. They think if we could use our CCC stocks in a method of PIK overseas it would be a good idea.

Senator **Wilson**. In your experience in export sales, have you had any indication from foreign buyers that would tend to encourage the offering of the kind of device that Mr. Voss in his testimony identified as bonus tonnage? For example, the use of wheat on top of a sale of something else, or the use of cotton on top of a sale of wheat?

Mr. **Stone**. I have not personally.

Mr. **Weldon**. I have not either, and I don't deal in that area, but I do not see why it would—why the buyers of our wheat would not benefit from getting additional wheat based on the program.

Senator **Wilson**. Are you aware of any activity on the part of FAS, the Department of Agriculture's Foreign Agricultural Services, to ascertain the level of interest in that sort of program?

Mr. **Weldon**. When we were in Washington 3 weeks ago we met with some folks in the USDA, and they are exploring all possibilities in that area, but I don't think they have developed a policy at this point. I know your Senate Agriculture Committee staff, when we met with them back there, they're looking into that in great depth, so we feel it is being explored fully.

Senator **Wilson**. Gentlemen, thank you very much. We appreciate your taking your time and trouble to be here and to add to the record.

Panel five consists of William Quarles, president of the California-Arizona Citrus League; Steve Easter, vice-president of the California Almond Growers Exchange, and Robert Hartzell, president of the California Association of Wine Grape Growers. Gentlemen, welcome. In the order that you were announced, we will hear first from Mr. Quarles.

STATEMENT OF WILLIAM K. QUARLES, PRESIDENT, CALIFORNIA-ARIZONA CITRUS LEAGUE

Mr. **Quarles**. Thank you, Senator. I'm William K. Quarles, president of the California-Arizona Citrus League. The league is a voluntary nonprofit trade association comprised of marketers of approximately 75 percent of the citrus produced in the two States, approximately 85 percent of which is produced in California.

I have submitted a paper for the record [1] which, incidentally, includes an example of one of the health standards that may well provide a nontariff barrier that perhaps we could get into the question-and-answer session at your pleasure. I'll summarize and to some extent supplement the paper.

Exports are of vital importance to the California-Arizona citrus industry. Last year we exported approximately 40 percent of the crop amounting to $375 million, both in fresh and processed citrus, to approximately 50 nations around the world. It need not be stated what would happen to the economic interests of citrus growers if our foreign markets were subsequently closed off and that volume of citrus had to be marketed domestically. The result would be clearly predictable, even with a Federal program to provide for orderly marketing.

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[1] See p. 280 for the prepared statement of Mr. Quarles.

Our problems related to the exporting of citrus are primarily those of market access. I think the import quota Japan imposes on fresh oranges is very well known. Considerable progress was made during the multilateral trade negotiations and subsequent negotiations, and Japan is moving in the right direction, but that quota still exists, obviously for Japan's own political interests. Japan also imposes a 40-percent import tariff on fresh oranges imported this time of year, compared to approximately a 5.1-percent import tariff that the United States imposes on fresh oranges.

Since 1969 our industry has been opposing a discriminatory tariff preference scheme in the European Community. During this time of year we pay a 20-percent tariff on fresh oranges going into the Community, while Spain, right next door, pays 12 percent; Egypt, Israel, and Lebanon pay 8 percent; and Morocco, Tunisia, and Algeria pay only 4 percent. That case, after about 12 or 14 years, was eventually taken by the United States to the GATT. We recently achieved a panel decision favorable to the California citrus industry but the European Community has now disclosed its intent to block the implementation of that panel decision in the GATT council, obviously for their own political interests.

I think the bottom line in the trade bill is that if we're going to move toward more market-oriented policies for major commodities instead of Federal outlays to support farmers' incomes, it's important that U.S. farmers have fair access to the international marketplace. At present, our trading partners will provide that access only if it is in their interest to do so. It is believed that in the future the United States must have the tools available to be sure our trading partners are well aware it is in their interest to provide market access for U.S. farm products. There is no question that U.S. agriculture will face major barriers to trade in the future. The U.S. Government must be able to move swiftly and powerfully to deal with those barriers. It should have all conceivable tools available to countervail or retaliate against the offending trading nations, be it with subsidies, embargoes, or anything in between.

It is of crucial importance not only that the United States have the tools available but that the administration has the responsibility to use them in a timely fashion. It's of no help to a commodity group damaged by subsidized imports in 1985 for the United States to countervail in 1987. The orderly development of export markets stems from an orderly domestic market.

A tool to achieve those are the Agricultural Marketing Order Programs. These, Senator, are voluntary self-help grower administrated programs requiring no Federal outlays. The citrus industry is in relatively good economic condition compared to agricultural commodities across the Nation. One of those—one of the reasons for that economic condition is the Federal marketing order program. Opponents have testified in public hearings that 20 to 30 percent of California citrus production would be forced out of business without the citrus marketing order programs. That's just exactly what U.S. agriculture doesn't need now. Granted, these are regulatory programs, and good ones. Many believe, however, that the administration is trying to eliminate some of these programs through bureaucratic frustration. Over 90 percent of the growers in our industry support it. We believe that it's important that the farm bill recognize the need for these valuable programs and cause the administration to implement the programs in the manner that Congress intended, and we hope we'll have your support toward that end.

Finally, I would like to echo Mr. McFarlane's endorsement of Ambassador Clayton Yeutter, former deputy special trade representative, now nominated to be the U.S. Trade Representative. Mr. Yeutter has a broad knowledge in agriculture and broad knowledge of California agriculture. He is an extremely competent individual. We urge your support of his confirmation. Thank you.

Senator **Wilson**. Thank you, Mr. Quarles. And I agree with your comments about Mr. Yeutter and those of earlier witnesses. I think that he is knowledgeable, particularly of California agriculture, and I think he can be an aggressive and effective U.S. Trade Representative. Mr. Easter?

STATEMENT OF STEVEN W. EASTER, VICE PRESIDENT, CALIFORNIA ALMOND GROWERS EXCHANGE

Mr. **Easter**. Thank you, Senator Wilson. Steven Easter, vice president of the California Almond Growers Exchange. We represent approximately 5,700 almond growers in California that market under the Blue Diamond brand and handle about 60 percent of the California production, which amounts to about 40 percent of the world supply of almonds. Something over 60 percent of the production of California almonds is exported, and in recent years it's been the leading food export from the State of California. As such, we are vitally interested in the title I or trade section of the farm bill and appreciate very much the opportunity to provide comments at this hearing.

We're submitting two comments for the record, one by president of the exchange, Roger Baccigaluppi, who regrets very much that he is unable to attend this hearing, and the other by myself.[1] The statements do cover the points you request, we consider in terms of title I.

I think before we get into that it's extremely important that we stress what we believe are the most important points in the current farm crisis. The first of these is the tremendously overvalued U.S. dollar. This is an area that has been mentioned I think by virtually every witness that you've heard today. You mentioned it yourself in the opening remarks, so I don't believe it's necessary to dwell upon the statement except to say that it's a situation that we believe must be corrected, not only for the agricultural industry of this country, because without correcting this imbalance in the dollar ratio versus other currencies, we believe very strongly that we're going to have some serious difficulty in this country in that we will be buying all of our product abroad and unable to sell any of our product abroad that we have—in markets we've relied on over the years.

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[1] See p. 282 for the prepared statement of Mr. Easter and p. 284 for the prepared statement of Mr. Baccigaluppi.

We think that this, as you state in your opening statement, is the most important farm bill to be enacted this year. It's a meaningful action in the area of deficit reduction and correcting the imbalance in the dollar value.

Another area that has been referred to by Mr. Quarles is the area of the controversy over the uses of marketing orders, particularly marketing orders in fruit and vegetable area in this country. These are tools that have been extremely effective in assisting farmers, particularly in times of hardship. There are those who contend that marketing orders were depression borne legislation, and even though we point out very succinctly they have been successful in all types of economics situations, even if we agree that they are depression borne and should be treated as such, I don't think we've ever seen a more serious depression than we see now, in not only California but U.S. agriculture. Point being I think that marketing order tools are essential to the types of problems we have today and must be allowed to exist and to contend with these problems. We believe it's vitally important that the use of marketing orders be addressed in the 1985 farm bill and it be reaffirmed that these orders are a viable and vital tool in enabling U.S. agriculture to help overcome the problems it faces today.

Now, specifically in regard to title I, we think there are basically three areas that must be stressed in title I. First of these is the promotion of our agricultural commodities through the Foreign Agricultural Service system of agricultural counselors and promotional programs. This area must be encouraged, must be funded, and must be stressed if we're going to continue to compete in today's world economy. We urge a strong section of title I expanding the influence of the Foreign Agricultural Service and expanding the scope of the programs for foreign market development.

Second area is in the need to liberalize agricultural trade. We have a number of trade barriers that we face throughout the world. These trade barriers are real, they exist and they hamper trade. We think that items such as the 50-percent duty against almonds in Korea, 35-percent duty against almonds in Taiwan and 100 percent or better duties in countries like Brazil or India have no justification. These must be eliminated. We must have the ability to trade in these countries throughout the world. Our U.S. Government must monitor this area carefully and must find a way to break through these barriers if we are to expand U.S. agricultural trade or trade in any products. We must demand that these actions are taken in this farm bill.

Finally, we must have the ability to overcome unfair trade tactics that are used by competitive nations. In fact, the provision of title I should be included that authorizes the export subsidies to commodities that must compete against subsidized agricultural exports of other countries.

We believe these are three principal factors that must be considered in the title I, and we urge that you consider them very strongly, and we will be working with others in California to bring you specifics of these programs. Thank you very much for this opportunity.

Senator WILSON. Thank you, Mr. Easter. Mr. Hartzell.

STATEMENT OF ROBERT P. HARTZELL, PRESIDENT, CALIFORNIA ASSOCIATION OF WINE GRAPE GROWERS

Mr. HARTZELL. My name is Robert P. Hartzell. I am president of the California Association of Wine Grape Growers, a trade association representing approximately 1,100 growers who produce approximately 70 percent of the non-winery-owned grapes for wine in California. It's my pleasure to appear before you to discuss the specific needs of the some 5,000 California wine grape growers, and I believe I can speak for most of the California vintners in addressing the major trade problems and issues that are important to the California wine industry. I would then like to address the needs of California specialty crop producers, for a strong title I or export component in the 1985 farm bill. Obviously, being last on the panel, most of what I was going to say has already been covered, so it's going to be relatively easy to stay within the 5-minute limit.

There is an enormous imbalance between U.S. wine exports and wine imports. Wine imports in 1984 were 141,600,000 gallons, up 8 percent from 1983. Unfortunately, wine exports, most of which were from California, were only around 6 million gallons in 1984, down from the 11 million gallons just 3 years ago. This imbalance is of great concern to California growers and vintners and should also be to your committee, to the Congress and to the President, as wine imports represent about 2 percent of the entire foreign trade deficit.

Major problems in exporting wine are the strong dollar in relation to other currencies and both tariff and nontariff barriers which exist in principal export markets such as Canada, Japan, and Caribbean countries. Through the mandates of the Wine Equity Act—we thank you for your strong help and support and sponsorship of that piece of legislation—the good efforts of the U.S. Trade Representative, and the Bureau of Alcohol, Tobacco and Firearms, actual plans are being implemented to reduce export barriers.

The Congress, however, must act now to reduce the budget deficit by cutting spending across the board, including spending on agricultural subsidy programs. I sense an alarming lack of resolve in both the House and the Senate to take the decisive action needed and, Senator, I was back in Washington for a little over 1 week, 1 week or so ago. I heard 23 Senators and Members of the House in half hour seminars which were sponsored by the Wine Institute, and I was absolutely amazed at the lack of resolve by some of your colleagues in both Houses, both parties, to address the deficit problem. It was actually stunning to me that when we hear the cries coming from the farmers and the people at least that I talked to and then the lack of resolve, I was disturbed.

Senator WILSON. Well, you're entitled to be, but take heart. I think they may find some spine before it's over. The choice is whether they do it sooner or later, and if we wait too long and interest rates and inflation reignite, then the pressure could become unbearable. I hope they have the wisdom and courage to do it earlier, when it makes sense and I am a good deal more optimistic than I was 2 weeks ago that that's the case.

Mr. HARTZELL. That's good news.

Senator WILSON. Maybe I'm just a cockeyed optimist, but we'll see.

Mr. HARTZELL. The enormous flood of imported wine flowing into this market is seriously injuring California's growers and vintners. These imports, primarily from France and Italy, are subsidized under various schemes authorized under the Common Agricultural Policy of the European Economic Community, and that is the major reason that many of California's growers and vintners find their market diminishing, their profits nonexistent, and their farms and businesses on the brink of financial disaster.

An action will shortly be filed with the International Trade Commission alleging that subsidized ordinary table wines in France and Italy are injuring U.S. wine grapes growers and vintners. I ask that your committee press to see that the Department of Commerce does a thorough and complete investigation of the alleged subsidies, whether they be provided by the EEC or at the national or local levels of government.

Should the International Trade Commission determine injury and substantiate our claim of subsidies and recommend a countervailing duty be imposed, it will be of extreme importance that you urge the President to accept the recommendations of the ITC and impose the countervailing duty. It would be a tragedy to California's growers and vintners to win in the ITC and then not have the President follow the ITC recommendation.

Now to comment briefly on the 1985 farm bill; I'd like to stress the need to strengthen title I of the administration's version in the area of agricultural trade and export expansion. Strengthen is hardly an adequate word, inasmuch as it is so alarmingly weak in its current form as presented in S. 501 that it has absolutely no teeth at all.

I was alarmed at a meeting of the Agricultural Trade Policy Advisory Committee last month on which I serve, and at which both Secretary Block and then Trade Ambassador William Brock were present to hear a high official of USDA say that title I is purposely ambiguous, because it was the judgment of USDA that people tend to fear the devil they can't see more than the devil they can see. That's hogwash. Title I needs to contain some specific well-funded retaliatory 2 by 4's.

We need to demonstrate to not only our trading partners but to the American agricultural community the resolve of this administration by using some of these well-funded, strategically placed spears or 2 by 4's to demonstrate our resolve. I'm talking about actions like the wheat floor actions in Egypt of 1 year or so ago. This time it could be dairy products or an outright subsidized export sale or two. It is my firm belief that if we use a few of these 2 by 4 actions judiciously, our trading partners will start listening to us and start correcting and removing some of their subsidies and barriers that are hurting U.S. agricultural export trade.

Since preparing my written remarks for your committee I've had an opportunity to study in detail Senator Helms' version of title I of the farm bill. His title I recognizes the market realities faced by U.S. producers and demonstrates a national resolve to assist U.S. producers competing in an international marketplace that is not fair. The PIK provisions on CCC owned stocks appears to be very realistic to me. The export assistance of $225 million, and that's per year, is right on target. I do differ with the Helms bill, however, in that I feel that the sale of up to 150,000 metric tons per year of dairy products should be discretionary rather than mandatory, a spear or a 2 by 4 to be used judiciously when needed, if needed.

I strongly support a new round of multilateral trade talks, but it is alarming for me to learn that the EEC at this point in time will not agree to discussions of the Common Agricultural Policy being a part of the new round. As far as I'm concerned, if the CAP can't be discussed, forget the multilateral round. Again, I feel that some well-placed 2 by 4's directly affecting the EEC will force them to agree to the Common Agricultural Policy being a part of the new round. The most important changes that should come out of the new round as far as wine in concerned are: One, operational, workable, realistic, and timely GAP dispute settlement procedures, the type that Bill Quarles talked about, just aren't working. And two, the removal or reduction of CAP financed wine subsidies are hurting us badly.

Now, my last comment was on cargo preference, and everybody else has talked about it and I feel exactly as they do, except that I find that cargo preference is also hurting us in our ability to throw some of these 2 by 4's and spears because it makes the costs so prohibitive. For that reason, I want to see cargo preference taken out of agriculture's budget, and if the Maritime Administration and Defense Department wants to pay for it, so be it.

Also, I would like to add to something that was said earlier. I would like to see FAS expanded so that we can use FAS funds in Canada. About half of our wine exports go to Canada. We should be able to use FAS funds there.

I also would like to urge your support of Clayton Yeutter and his confirmation.

Senator **Wilson**. Thank you very much, Mr. Hartzell.

Some questions for each of the panelists. Let me accept, Mr. Quarles, your invitation to discuss the example which you provided about the health standards.

Mr. **Quarles**. One of the very unfortunate incidents that we had in our industry running back about 7 or 8 years ago now, the citrus industry was utilizing two pesticides on all citrus shipped both in domestic and export markets. Those materials were orthophenol and dibendysol TBZ. At one point after these materials had been approved by the World Health Organization, the Food and Agricultural Organization of the United Nations and all developed countries in the world, including the United States, Japan unilaterally decided that they were a threat to the health of their people, so they promulgated a regulation that no citrus bearing those two pesticides could enter Japan.

At that point the United States or one of the industry marketers, Sunkist, had four ships on pipeline. One was loading at Long Beach, one was a few days sale outside of Long Beach, one was a few days sale outside of Tokyo, and one was unloading in Tokyo. Before they got the curtain completely pulled down, we did work two ships through the marketplace. We had to divert one ship to the Soviet Union, and we made lemonade out of the South Pacific with the other. That's not the kind of lemonade that Dick King had in mind, I don't believe, but it shows that this is one of the most insidious types of nontariff barriers that is extremely difficult to deal with when you deal with a health matter.

Then the question of whether it's healthful or not is based upon scientific evidence, which takes a tremendous amount of time to develop to overturn any kind of a decision, often political, that are based upon such health concerns, so we just wanted to point out that this is simply one example and perhaps an area that is the most difficult to deal with when dealing with nontariff trade barriers.

Senator **Wilson**. Thank you very much. Let me pursue another point that you were making about the Japanese import quota on fresh oranges. In addition to this 40 percent import tariff that you pay at this time of year compared with 5.1 percent of equivalent which we charge on imported oranges, you've made the point that although progress has been made, the quotas still exist. Isn't it also true that an effort is now being made by MITI and some of its constituent groups to try to back away from satisfaction of the quotas that they have agreed to?

Mr. **Quarles**. That's correct, Senator. From time to time when Japanese quota holders are not achieving their—the level of profits that they're used to, why, then all types of barriers to increase imports develop. Just one typical example is that the Japanese would like to place a—to raise the standard weight that they apply to our cartons going into Japan. Right now during this year the quota is 93,000—104,000 metric tons. Well, we have a certain standard shipping carton and the standard U.S. weight assigned to that shipping carton is 37½ pounds, so that means with 104,000 metric tons going into Japan there are a certain number of those orange shipping cartons that go in. Well, Japan would now like to assign a higher weight per carton to those shipping cartons, which means that with a 104,000 metric tons, a lesser number would be able to enter Japan.

Senator **Wilson**. What justification have they offered for that?

Mr. **Quarles**. Apparently they have weighted a few of our orange cartons and they were running a little bit higher than the U.S. standard, but we must keep in mind that the U.S. standard is a standard for both navel and Valencia oranges grown throughout the length and breadth of California and Arizona during different seasons and different time periods within a season, so it is an average, and the Japanese are arguing with our average.

We feel very strongly that that is a U.S. standard and Japan should accept it. The incident that you mentioned, there is a regulation that is being implemented in Japan whereby a license holder has a certain license to import a certain volume of oranges each year. He must import that volume in order to get his license next year. The relief or the action that you're referring to is the effort being made by Japanese quota holders to get relief from that so that they do not have to import U.S. oranges during this year. Our belief is that they want to use that to be a lever to negotiate price with U.S. shippers and in our view, simply another potential manner and insidious way in which market access can and is restricted around the world.

Senator WILSON. What effort is being made by the Japanese Government to satisfy their obligation that they have negotiated by finding other buyers under those same quotas? The quota holder professes that he is unable to do it. Suppose someone else is able to and wants to do it?

Mr. QUARLES. The Japanese at this point have shown no inclination to increase the number of quota holders or open it up. The Japanese are saying that they like certain sizes of oranges. In our industry they call an orange a little bigger than a baseball, about a 72 or an 88, which means 72 oranges or 88 oranges in a standard shipping carton. Those are the sizes, the particular sizes that Japan wants. This year, however, our Valencia orange crop, we have a rather normal sized crop but rather small fruit sizes, so there won't be as many 72's and 88's as we would like and, consequently, the price for those are going to be rather high. Well, the Japanese quota holders are asking the Japanese Government to make the unilateral declaration that we've had a crop failure in California and therefore they should not have to bring in their licensed volume this year in order to get their license back next year.

We feel if they're having a problem with price over there, one of the things that they can do is suspend for one season this exorbitant 40 percent duty or at least harmonize it at the U.S. level of 5.1 percent. Another thing that they could do is suspend the import license system for 1 year and if the Japanese quota holders that are under license currently don't want to buy, why, let anybody buy, as your question suggested. Either way would solve that particular problem.

Senator WILSON. I think both are reasonable suggestions and this is a point that we really need to insist on. Your experience with the European Community's Common Agricultural Policy confirms my own feelings regarding the inadequacy of the GATT dispute settlement procedure, and I hear it echoed in very articulate terms by Mr. Hartzell. You say the European Community, however, refused to take those steps to comply with the GATT panel's findings, but instead took vigorous steps to block a decision favorable to the U.S. citrus industry at the GATT council meeting on March 12.

Unless the council of the GATT adopts the panel report and implements it, the only thing left for the United States is retaliation. This suggests that dispute the settlement mechanism, if not the GATT itself, may not be working. I think that's very clearly true. Unhappily, it has now been proven with respect to citrus, and it's previously been proven true with respect to grapes and raisins. I think the experience of the raisin growers in the repeated delays in the convening of the presumably disinterested panel has amounted to a blatant fluffing-off of American growers.

Mr. QUARLES. I want to make it clear, Senator, that I did not intend to suggest that we throw CAP out the window. As a matter of fact, we believe that despite the fact that it may not be working that it's the only game in town. We think it is a fair body of rules for international trade if its signatories will live up to it.

Senator WILSON. I understand, and I would agree. I think the fact of the matter is there isn't an adequate dispute settlement mechanism. It is not working, and I think that fact is so serious that it sows the seeds of destruction in the entire mechanism. If it cannot effectively settle disputes, then it isn't really going to be effective. Your point, I think, is clear and you've made clear that you prefer a multilateral approach to what the administration has sought already in specific instances of bilateral agreements which it appears they want to continue.

Mr. **Quarles**. We'd just like to help them along with their dispute settlement mechanism and give the United States the tools to make it within the interests of our trading partners to live up to the rules of the CAP and to make whatever dispute settlement mechanisms we can come up with to make them work, and I think that to the extent that we do have an arsenal—and we have not only the arsenal to use but the obligation to use it under certain circumstances—may well cause this to happen.

Senator **Wilson**. Mr. Easter, you have suggested a means of providing for orderly marketing, as well as quality control and promotion. You have indicated in what you call a three-pronged attack on the problems of exports or export access that there needs to be additional promotion. And you've suggested augmentation of current FAS efforts. You stated that the history of this program shows it should be looked at not only as a benefit to the agricultural producer, but to all of the United States, improving the national economy. You're talking now about the cooperator program. Let me ask whether the almond industry would be willing to go further and increase the industry's participation by changing the matching fund formula to perhaps something as great as a two-to-one match with, private-to-taxpayer funds, in order to see an augmentation of this promotional effort.

Mr. **Easter**. Yes, Senator, we would be. We think that this is a cooperative program. We're not asking that the program be enhanced in such a way that the industries or cooperators participating would not have to pay their way. We're just suggesting that the existing program has allowed a great deal of mileage to the funds that the people like the almond industry have to spend, as limited amount as it's been, but there is an awful lot to be done in the programs around the world. We, for example, market in about 88 different countries around the world and currently only have promotional programs in about 5 of these countries. We can support promotional programs in other areas if we have some assistance, such as the foreign agricultural assistance, and another reason it's so important is that, for example, in Korea I mentioned 50-percent duty, also a quota in Korea. We would like to promote almonds in Korea. We think it's essential we do it in conjunction with Foreign Agricultural Service so we get their attention to reducing some of these barriers. Before we begin promoting almonds, there must be the ability to get them into the country and make significant sales, so we have to work hand in hand.

Senator **Wilson**. That's precisely the point. The other day Premier Nakasone, in response to the rather clear and evident anger in the Senate and the change in tone in the administration, took the unprecedented step of making an appeal to the Japanese people that they buy imports. All of this is fine if there are indeed any imports to buy. But they have to first let the products in the country. It seems to me that there are a number of people who are skeptical about the FAS programs, and it's interesting to me to hear the cooperators respond as enthusiastically as I have heard them this afternoon. It seems to me that there is a case to be made. I personally believe in advertising and in promotion. I think you can increase sales that way. I think there is a lot of evidence that proves it. But once again, it would be a total waste of money to engage in that kind of promotion and advertising where we can't get the products into the country or where the prices are inflated artificially by these duties and by other nontariff barriers with the effect of making them unaffordable.

Mr. EASTER. An excellent point, and I think that the comment about the effectiveness of the program—we didn't use the example, but we have in many cases an example of the almond industry in Japan as far as an effective program is concerned. In cooperation with Foreign Agricultural Service we've had a program there for a number of years, and we've taken a market that really didn't exist for almost 15 years ago, or existed only in very minor quantities, to a point now where they are the second largest consuming country outside of the United States of almonds, and probably the second fastest growing market for almonds in the world, so you have these kinds of opportunities, and I think with some additional support the Foreign Agricultural Services Program can be of great assistance in those kind of development projects.

Senator WILSON. All right, sir. Thank you. Now, Mr. Hartzell, let me get into a couple of points that you have made, and suggest that having been last, you found a way to make it interesting. You made a number of very good points, one in particular that I wanted to pursue with you. You said that an action will shortly be filed with the International Trade Commission alleging injury to U.S. wine grapegrowers and vintners. This time you will have your day in court and——

Mr. HARTZELL. Thank you.

Senator WILSON. With it I hope you will have vindication. I can assure you that if the recommendation of the Commission to the President is that he employ the remedies that the act makes available, I will be your loudest, clearest advocate that he do so. But let me ask this. Earlier today Ms. Peltier in her testimony suggested that she thought it highly desirable to require agricultural attachés in our embassies abroad to make an annual report on foreign subsidies. I think that's the right idea. I'm not sure that's putting the function in the right place though. It would seem to be logical, but there seems to be a history of wishing to avoid conflict within the State Department. The old gag is that we need an American desk in the State Department. I am not sure exactly the right way to go about it but at least I think the idea has merit. I assume that something like an agricultural attaché making a report of that kind would have been of great value to you in preparing your case for the ITC.

Mr. HARTZELL. And, in fact, we did get help from the agricultural attachés through Foreign Agricultural Service.

Senator WILSON. I don't want to be unfair to them. For the record, let's hear about it.

Mr. HARTZELL. I want to substantiate what you said. After the first report was done by the Foreign Agricultural Service, the embassy in Rome became politically nervous, I think, through actions of the State Department, and so a new study was done which removed some of the troublesome subsidies or problems that the State Department found in it, so we have now a second report out of FAS which is far more palatable to the State Department, so it's—you were on the right track when you started.

Senator **Wilson**. Well, I think you too have been clear on cargo preference and for the strong support of the wine grapegrowers for a new round of multilateral talks.

Mr. **Hartzell**. As long as the CAP is in there. If the Common Agricultural Policy isn't a part of it—could I call your attention to another situation that just arose yesterday that involves a foreign company, and I would like to call your attention to the fact that the Joseph F. Seagram Co., which is a major distilled spirits and wine importer, called a press conference in New York City yesterday to announce that they are launching a major advertising campaign in the United States, full page ads and so forth, along the line, and I'm quoting, "It's time America knew the facts about drinking," in which they will attempt to condition the American public to believe that alcohol is alcohol, regardless of whether it comes from beer, wine, or spirits. They're allocating $10 million to the fund.

Their claims are false and misleading and are aimed first trying to reverse their loss of market share to beer and wine, but then, second, to set the stage for the Congress to impose an increase in the excise tax on beer and wine, the same level as is being imposed on them starting in October of this year, as you are aware, on the theme of equivalency that alcohol is alcohol is alcohol. We California growers and vintners cannot stand any further erosion in our market, so we will be launching a very vigorous attack on this campaign that the Joseph F. Seagram Co. announced yesterday. Your support when it comes to excise tax increases on beer and wine will be appreciated.

Senator **Wilson**. Well, I did not know that, though I'm not surprised, since part of my initiation into the Senate was having to repulse what I thought to be a rather sneaky effort to offload onto wine half of the liquor tax increase. If their point is that alcohol is alcohol, perhaps we should refer them to the Scriptures. I don't think you will find anything there about a little bourbon for thy stomach sickness. Not that I have anything against bourbon.

All right, gentlemen, thank you very much. I greatly appreciate your presence.

We have one more witness as we excuse this panel. Wayne Meyer, the president of the California chapter of the American Agriculture Movement, has asked to testify and we will afford him the same opportunity that we have preceding witnesses.

Mr. **Meyer**. Thank you.

Senator **Wilson**. Mr. Meyer, you have 5 minutes, and we may have some questions.

STATEMENT OF WAYNE MEYER, PRESIDENT, CALIFORNIA CHAPTER, AMERICAN AGRICULTURE MOVEMENT

Mr. **Meyer**. Thank you, Senator. I certainly thank you for the opportunity to testify here today.

I believe that we're in a serious situation in this country, and agriculture for sure is in a serious situation, and we're going to bring the rest of the rural areas down on top of us, and eventually the urban areas, if changes aren't made. I certainly believe that we're at a crossroads as far as the direction this country takes, as far as whether we're going to continue with the family farm type of system or if it's going to be a corporate type of agriculture, and I think the 1985 farm bill is the most crucial part of that crossroads and what direction we take, and if we don't make some changes in the direction that we're headed, we're going to suffer some serious consequences. Not only us, but our children and grandchildren are going to reap the benefits of the mistakes that we've made.

Farmers are going broke across the country, 25 to 30 percent at this time are going broke or in serious financial trouble. In another year's time, under current conditions, it's going to be even worse, maybe 50 or 60 percent. If the program goes through that the administration proposed, family farms as we've know it, the people that have made their living off of those farms, full-time family farmers will be gone, and low prices and cheap imports are the cause of it. We cannot continually operate with prices less than our cost of production, and today we're operating at about 52 percent of parity, which is similar to standing out there on the street corner selling dollar bills for 52 cents, and we wonder why we can't make enough with increased volume and that's what we have tried to do, and then we've created surpluses. Low prices create surpluses. Check the records. Low prices always cause surpluses.

In the 1970's we were told no more problems, we're going to feed the world. We're going to have good prices. Farmers were told to feed the world and the next thing we know we've got embargos, lost our export markets, and our prices have fallen because of that.

Another program we've had was the PIK program and farmers have caught a lot of flak because of all the money that that program cost the Government that went to the farmers. Well, check around and you find out that 45 percent of all the PIK went to Continental and Cargill Grain Companies. The farmers didn't get it.

And the strength of the dollar is a problem. Hurt us worldwide on all our exports and also made us the high market in the world for everybody else. Everybody wants to sell on the high market. The strength of the dollar is the result of the deficits and high interest rates, but we're never going to have balanced budgets, or reduce any debt in this country until agriculture gets back on par with other segments of the economy. Historically, that's the only time we've had balanced budgets or when we've reduced debt is when agriculture has been on par. The last time agriculture, in 1973, averaged 90 percent of parity prices for that year for all farm commodities, 1973 was the last year that we balanced the budget in this country.

We've been told and we're being told that we've got to get our prices down so we can compete on world market, particularly with the grain, and that's the big thing that we export. We're the world's leading exporter of grain, and we're told that we have to get our prices down so we can compete. If we get down to the bottom line, we set the market, we are the world market. Chicago

Board of Trade price plus freight, and we set that market. We're already the lowest in the world of the major exporting countries, we're already the lowest price, and whenever we lower they just follow along in line, but they're still above us. Our total grain exports have continued on up.

The last 3 years we hear stories about exports are down, but in reality the pounds and bushels are up. The dollar volume is down because the price per unit has been so low for what we receive, that the total dollar volume is down on exports, and I'm speaking strictly on grains, but our tonnage has been up and we can get a balance of trade back in line if we have a fair prices for what we export, but we can't continue to send commodities overseas at half price of what our input costs are, and we can't continue to operate that way, and I've never understood why this country has always been able to send fighter aircraft or munitions or something to kill people overseas and those people that produce that always get a full fair price but we send food or something to keep people alive, and the people that produce that are supposed to do it for nothing, I don't understand the system.

Of the exporting nations, European Common Market, their support price for wheat was $4.39 a bushel, Canada was $3.75, Australia $3.72, and the United States was bottom, $3.65. In our 1984 program we lowered our support price for wheat from $3.65 to $3.30 per bushel and everybody else just fell in line. We were still at the bottom. EEC was $4.22, Canada $3.40, Australia $3.41, and we were $3.30. They're going to follow whatever we do.

On imports, the other way. The No. 1 market that the American farmer should be entitled to is the American market. Today it seems like if you say something about America first, people look at you like you're strange. I don't believe it ought to be that way.

We import 40 percent of our red meat, 30 percent of our dairy products. We're told we've got 30-percent surplus in our dairy surplus, but you check the record and find out we import 30 percent of our dairy products, which exactly equals the surplus, so-called. If we had to raise that meat here and those dairy products here, we wouldn't have any grain surplus, we wouldn't be able to raise enough grain to do it, but we're being told because of all these things we've got an imbalance. We're being told we've got to go all over the world looking for markets, when the market is right here if we want to have it here.

And we raise a lot of rice in the State of California and United States, and right now cost of production of rice up in my area, I'm just north of Sacramento, rice is $9 to $10 a hundredweight to produce. California farmers are being asked to sell it today for $6½ to $7, and right now ships coming in from Thailand into Long Beach Harbor, $4 FOB Long Beach. And we're asked to compete. I say we can compete with that if we want to live in a grass shack and run around in a loincloth. If we want to protect our standard of living, we can't let these cheaper foreign commodities come in and debase our economy. That's exactly what is happening. California Rice Growers Association release of 1980, we imported 7,000 metric tons of rice from Thailand. Projection for 1985, 35,000 tons. Rice warehouses in California are full to the rafters of California rice. Peaches; we raise a lot of peaches in California. Peach farmers here have been told you've got to take out half your orchards, we're overproduced. In 1983 we imported 176,000 cases of peaches in this country and in 1984 we had a tenfold increase in 1 year, and we're telling our people you've got to pull your orchards out because we're overproduced. Doesn't make sense, and the same thing is happening in all the other commodities.

What we're asking for is fair trade, not free trade. Free trade is nothing more than a license to steal by a powerful "handful" of people. All the trade that moves in the world is controlled by basically the "big five." The grain companies also control everything else, Cargill, Continental, that group. How can you have free trade when you've got five people controlling it? There is nothing free about it. We've got the GATT, if we just enforced the provisions that are already in it. We don't even enforce what is there as far as protecting our own producers from these cheap commodities coming in.

The Constitution demands that we set duties and tariffs on these imports to protect our business in the United States. And it's important that we do that or we're going to lose the system. The family farm system served this country well for over 200 years, envy of the entire world, and now the pressure seems to be to dismantle that system. Family farms are the last front line of private enterprise in this country today, and when they go the corporates have everything, and 1985 is the key, and I'm just asking you to take a look around and take a full look at all the proposals that are being presented in the farm programs and what is going to be the long term best interest of the American people, and I believe the American people in long term are going to be much better served by the family farm system than by corporate type of agriculture.

I thank you for the opportunity to testify, and if you have any questions I'll be glad to answer them.

Senator WILSON. Thank you very much, Mr. Meyer. I have a couple of observations. I happen to concur with much of what you said, certainly about the desirability of the family farm. I think it's produced a very meaningful and significant way of life not just for the people on the farms, but it's been a very good thing for the country. There is no question there has been a trend toward a different kind of agriculture—toward corporate farming—but if I understand what you're saying, you feel that in order to sustain the family farm that we should stick with the programs that have developed over the past three or four decades.

Mr. MEYER. No. Absolutely not.

Senator WILSON. Then I misunderstood, but it sounded as though you were making an argument for the existing price support programs.

Mr. MEYER. Absolutely not. We want no subsidies, but we can—I didn't go into the whole thing because I just tried to limit my remarks today to import-export, to the trade portion of it. Our national leadership met with Secretary Block recently, within the last month, and comparing the program we're presenting to what the administration presented, and Secretary Block admitted that our progam would cost no more and probably cost less than the program that the administration is proposing, so we're not talking about a Government outlay of funds.

Secretary Block said it's simply a difference in philosophy. We can have fair prices without a dime of outlay to the Government. There is a projection out, a study put together by Iowa State University and the University of Missouri at Columbia, and they compared a continuation of the 1981 farm program, compared with what the administration was proposing, and a program based upon 80 percent of parity. The 80 percent of parity program would cost the Government $4 billion the first year, and after that it would never cost them any more money. It would stabilize the number of farms and could return prosperity to this country. Agriculture consumes 40 percent of the industrial output of this country and when we're not buying, and we're not buying today, when we're not buying, the jobs go begging in the cities, and a lot of the urban Congressmen are starting to see that and understand that.

We've been told we're a problem, but now they're starting to realize because their people are being laid off. We can do it a couple of different ways, just on basic commodities, do something like minimum wage, put a minimum price on certain products or through a Government loan program that has to be paid back when the commodity is redeemed, so that doesn't cost the Government anything.

We operated on that for a long time and it made the Government money during that period of time, didn't cost them a dime. It's not some pie in the sky program. We certainly don't want subsidies and we think that the last 30 years the Government program for agriculture has been a mess and terribly mismanaged and it has cost the people a lot of money that shouldn't have ever happened, didn't need to happen.

Senator WILSON. If you have not already done so through some other channels, let me invite you to submit for the committee of record the AAM plan if it exists in writing.

Mr. MEYER. I'm sure it has been, but I'll make sure it has been.

And I would be glad to—if sometime in the future you have any questions about that plan, I'll be available and so will other people to answer any questions, because if we don't get this country back on a paying basis and start paying off some of this debt, we're in trouble, and the only way we can do it is through agriculture, which represents 70 percent of the raw wealth of this Nation, and we can put the earned income back into the system, but we can't do it when our hands are tied.

Senator WILSON. Thank you very much, Mr. Meyer. We appreciate you appearing before the subcommittee.

Mr. MEYER. Thank you.

Senator WILSON. Ladies and gentlemen, I thank all of you, both witnesses and observers, not just for your interest but for your participation. Again, let me say that the record remains open and we invite written supplements or written participation by those who did not actually appear. The record will remain open to the end of the month of April.

I think this afternoon has been extremely useful. There has been a considerable amount of agreement, I think, in the testimony of the witnesses that there is a need to responsibly reduce the deficit and to engage in actions that will allow fair access to foreign markets.

I can only tell you that I am convinced that California, far more than other States, is dependent upon the ability to export its farm products in order to achieve the prosperity that rightfully can be ours and to give employment to the vast number of people whose jobs depend on these exports. With the assistance that you've provided this afternoon, it will now be possible to return to Washington with a much, much better arsenal of weapons to persuade those that don't understand what has, in truth, stood in the way of the kind of farm legislation that really will allow a free farm sector to work without subsidies, to give employment, and to bring about the kind of situation that I think we all desire.

So with that, I thank you, and this field hearing stands adjourned.

[Whereupon, the committee adjourned, subject to call of the Chair.]

APPENDIX

OKLAHOMA CITY, OKLAHOMA HEARING—FEBRUARY 11, 1985

STATEMENT OF HON. GLENN ENGLISH, A REPRESENTATIVE IN CONGRESS FROM THE SIXTH DISTRICT OF OKLAHOMA

I am pleased to join Senator Boren in this agriculture hearing and I am hopeful that the information we gather will lead us closer to solving the crisis in agriculture.

Make no mistake—we do have a crisis in agriculture. When a factory shuts down or an industrial plant relocates—much attention is given to the economic impact of that loss to the community and to the State. For some reason, when farmers go out of business, nobody notices—for awhile. Then, we see banks, businesses, small towns, and in fact, our rural way of life begin to crumble. Eventually, the impact will be felt in metropolitan areas like Oklahoma City.

We must stop this erosion of our agricultural community. We must have programs that bring supply and demand back in balance and strengthen market prices for farmers, not blame them for producing too much.

The Administration will propose a new farm bill that, according to an analysis by the Farm Journal, will lower the market price of wheat by 90 cents a bushel in the next 2 years. We can ill afford to adopt that proposal.

The economic impact of that proposal would be devastating to the economy of the Sixth District and the entire State of Oklahoma. In fact, by 1988, for wheat and cotton, the loss of farm income would be over $375 million for the Sixth District, $500 million for the State and the total economic loss could be on the order of a billion and a half ($1.5 billion) dollars for western Oklahoma and metropolitan Oklahoma City.

It is already too late for some farmers but we must do our very best to right this situation. It will not be easy. The President gave agriculture only two sentences in his State of the Union speech. We must raise the level of awareness and find new solutions.

We must find solutions that result in stronger market prices and less costs to the taxpayer. No industry has more at stake in reducing the federal deficit than agriculture, and no industry is more willing to do its fair share in reducing government costs.

All of this means we must be innovative in our approach to deal with the crisis facing our State and Nation.

I believe we can solve this problem but it will take all of us—working together in a bipartisan manner. I look forward to this challenge and to a more promising future.

TABLE 1.—THE REAGAN PRICE PLAN

Crop and year	Target price [1]	"Recourse" loan rate [2]	U.S. average farm price [3]
Corn—Cost per bushel:			
1985	$3.03	$2.55	$2.55
1986	2.82	2.11	2.20
1987	2.35	1.86	2.00
1988	2.02	1.68	2.00
Wheat—Cost per bushel:			
1985	4.38	3.30	3.30
1986	3.41	2.56	2.60
1987	2.95	2.32	2.40
1988	2.48	2.07	2.40

TABLE 1.—THE REAGAN PRICE PLAN—Continued

Crop and year	Target price [1]	"Recourse" loan rate [2]	U.S. average farm price [3]
Cotton—Cost per bushel:			
1985	81.0	57.3	55.0
1986	61.0	45.2	46.0
1987	51.3	40.5	45.0
1988	43.8	36.5	45.0

[1] Assumes 100 percent of last 3 years in 1986, 95 percent in 1987, 90 percent in 1988.

[2] 75 percent of last 3 years farm price.

[3] USDA actuals plus author estimates.

Note: Author—Dr. John Marten, Staff Economist, Farm Journal magazine.

Statement of Bill Clayton, Grain Sorghum Producers Association

Senator Boren and members of the committee, thank you for the invitation to appear before you today to speak for Grain Sorghum Producers Association. We are deeply concerned about the condition of U.S. agriculture and even more concerned about some of the proposals for the 1985 Farm Bill. We believe this hearing is evidence that you share those concerns.

An adequate affordable food supply is more important than defense weapons to national security. America, as a nation, has never feared hunger. American farmers are so productive that, even without full production, they produce forty percent more farm commodities than this nation can consume. The American consumer gets the most reliable supply of the best food for the cheapest price in the world.

The total food and agricultural system is also the single most important component of the American economy when viewed in terms of the nation's overall economic activity or in terms of the labor force. Even though American farmers, ranchers and farmworkers make up only about three percent of the workforce, more than twenty percent of the nation's workers are in agriculturally related jobs.

FARM INCOME

The average net farm income in 1983 was $11,749 per farm. USDA computes net farm income by subtracting production expenses from gross farm receipts. We must remember that this includes all agricultural production (livestock, fruit, vegetables, etc.). Had that $11,749 been the sole source of income for the "average" farm families, they would have earned only 41 percent of the national average family income. However, additional income from nonfarm sources averaged $17,299—one and one-half times greater than the income from the farming operation. Many agricultural economists and farm policy analysts use this "off-farm income" as proof that we do not need farm programs today as we have in the past. When you look further at USDA's classification of farms, however, you will see that 35% of the farms had gross sales of less than $5,000 in 1983, accounting for only 1.6% of total sales. This group of farms recorded an average loss from farming of $369 per farm. Obviously, most of these are "hobby farms" of people who earn their living some other way. Whether by coincidence or design, inclusion of this group helps to hide the dilemma of the fulltime professional farmer.

Aggregate net farm income peaked at $32.3 billion in 1979 and declined, by latest estimates, to about 16.1 billion in 1983—a sharp drop in income that, had it occurred among the wage-earning majority, would have resulted in a sustained public outcry. U.S. farmers must make a profit or the most productive agricultural plant in the world is going to be recorded only as a chapter in U.S. history.

GRAIN SORGHUM

The USDA "Economic Indicators of the Farm Sector" Cost of Production Report for 1983 states that grain sorghum farmers (national average) had a loss of $39.13 per acre in 1983. That compared to losses of $46.49 per acre in 1982 and $26.54 per acre in 1981. Southern Plains (including Oklahoma) farmers had losses very close to the national average. They recorded losses of $30.46 per acre in 1983, $44.29 per acre in 1982 and $21.40 per acre in 1981. With losses like these, a farmer's equity, more than his efficiency, will determine how long he stays in business.

EXPORTS

We hear a lot today about a market-oriented farm program, as if it is a new idea. Grain Sorghum Producers Association has always been market-oriented. We were the first to conduct overseas market development for U.S. feed grains. Since the late 1950's, GSPA has continued aggressive export promotion and we plan to keep it up. We do not believe, however, that we can export our way out of the present crisis. Last year, the U.S. held 71% of the world export trade of corn. If we had a total monopoly on the world's corn export trade, we would still be producing a surplus. A similar situation exists with other commodities. World carryover stocks of wheat and sorghum would more than fill the world export needs for one year.

At the present time, the world marketplace is controlled by such things as U.S. monetary policy, protective tariffs and subsidies, cheap labor in developing countries, bilateral trade agreements, U.S. diplomatic policy and many other factors which have nothing to do with production efficiency. Those political advisors who suggest that farmers should confront all of these inequities by selling their product far below the cost of production, are disregarding the disastrous effect such a policy would have on American farmers and, ultimately, on the security of the food and fiber supply of the nation.

THE ADMINISTRATION PROGRAM

The plan proposed by the Administration, the international grain trade and some well-known economists is based on two premises: (1) that without government support, prices will drop to "market-clearing" levels and American producers will eliminate their competition from world markets and (2) that lower prices will control production and prevent surplus. These premises have been tested and found faulty several times in recent history.

The first premise assumes that all world producers are competing under the same conditions, monetary systems and regulations and that the most efficient producers will sell at the lowest price. Nothing could be further from the truth. U.S. fiscal policy is the greatest single factor in the world market. After that come regulations affecting wages and production practices and many other factors over which farmers have no control. If lower prices are the answer to export volume, then we should have increased exports in 1982 when most of the grain was produced outside of the government program and market prices were 42 cents per bushel below the loan. Instead, exports actually declined by 15% that year.

The second premise ignores the fact that most farming costs continue whether production is at minimum or maximum levels. When prices drop, most farmers respond by trying to increase production. When prices are low in only one or two commodities, farmers can switch to other crops. But, when prices are low for all crops, farmers have no option except to hang on as long as possible. That situation occurred in the late 1950's when the government loan level was below the cost of production and prices were low. Such a surplus was created that it took production controls throughout the decade of the 1960's to get the supply back under control.

THE NATIONAL FOOD AND FIBER SECURITY PROGRAM

More than two years ago, the National Board of Directors of Grain Sorghum Producers Association began developing a plan which would assure producers an opportunity to make a profit and, at the same time, reduce the cost to the government. Our program would combine supply management with an aggressive market expansion program. Producers would be assured prices at the national average cost of production as established by USDA. CCC loans would be used for orderly marketing only and would be repaid with no net cost to the government. Overall, the government cost would be greatly reduced by our program. Most of the cost would be in its administration and in export expansion programs.

I have attached an outline of the "National Food and Fiber Security Program" for your consideration.

Again, I thank you for giving me the opportunity to present our views. I will be happy to answer your questions at this time or you may address them to our office: Grain Sorghum Producers Association, Box R, Abernathy, Texas 79311. Phone: 806 298-2543.

[The following fact sheet was inserted by Bill Clayton, Grain Sorghum Producers Association.]

FACT SHEET

I. An adequate and affordable food supply is more important than defense weapons to national security.

II. U.S. farm losses on 11 basic field crops in 1982 (the last normal crop year for which records are available) were more than $13 billion. (See Chart 1, source: USDA-ERS) Conditions have worsened since 1982.

III. U.S. national average losses on grain sorghum were $26.54 per acre in 1981, $46.49 per acre in 1982 and $39.13 per acre in 1983. (Source USDA-ERS "Economic Indicators of the Farm Sector, Costs of Production, 1983)."

IV. We cannot export our way out of the present farm crisis. U.S. farmers produced more corn than was consumed by the domestic market and total world export markets combined in the years 1981, 1982 and 1984. The only exception in recent years was PIK year, 1983. (See Chart 2, source: USDA-ERS "Corn: Background for 1985 Farm Legislation)" A similar situation exists with other commodities. World carryover stocks of wheat and sorghum would more than fill the world export needs for one year.

V. Lower prices did not increase exports in 1982 when most of the grain was produced outside of the government program and the market price of corn was 42 cents below the loan.

VI. Sustained low prices did not prevent surplus production in the late 1950's. On the contrary, farmers double-cropped and used other drastic methods to increase production in their struggle to keep up cash flow and hang onto their investment.

VII. The GSPA "National Food and Fiber Security Program" would:

A. Hold production to the level the market will consume;
B. Allow flexibility in crop planting;
C. Permit long term planning;
D. Hold market prices above the national average cost of production;
E. Expand sales while maintaining profitable production;
F. Reduce government net cost;

(A copy of the "National Food and Fiber Security Program" is attached to this statement.)

GRAIN SORGHUM PRODUCERS ASSOCIATION,
Abernathy, TX.

A new concept.—Grain Sorghum Producers Association has spent more than a year developing the National Food and Fiber Security Program. The plan first emerged in February 1983, when the sixteen-man GSPA National Board spent an entire day brainstorming farm program ideas. GSPA then took these ideas to their members in a questionnaire. Member response was overwhelming and decisive, with almost half of the questionnaires returned. The GSPA Board developed the plan and took it back to their members, who approved it in fifteen regional meetings held throughout a five-state area. On March 4, 1984, the GSPA National Board formally adopted the National Food and Fiber Security Program as Grain Sorghum Producers Association's proposal for the 1985 Farm Program. A number of other farm organizations have adopted all or part of this plan for their own official policy.

NATIONAL FOOD AND FIBER SECURITY PROGRAM

I. *Objectives.*—A. To return agriculture to a profitable position, B. To secure an adequate but manageable U.S. production of food and fiber; 1. To assure the American consumer of a consistent and abundant supply of U. S. farm products, 2. To assure the world that the U.S. will be a reliable and aggressive exporter of agricultural commodities; C. To reduce government cost.

II. *Implementation.*—A. A "National Production Goal" shall be established by the Secretary of Agriculture for each basic food and fiber commodity each year. The National Production Goal for a given year will be the estimated consumption (domestic and export) plus a National Security Reserve. Any carryover brought into the marketing year will be subtracted from this amount before establishing the National Production Goal.

1. The "Estimated Consumption" for the year will be the previous three years' average consumption trend adjusted for international political agreements which will affect consumption.

2. A "National Food and Fiber Security Reserve" will be maintained by the Secretary of Agriculture as a safeguard against unpredictable world weather and market conditions. The National Security Reserve will be limited to no more than 16% of the normal annual consumption. Storage and interest on the National Security Reserve will be paid by the government. The National Security Reserve will be divided

into two categories: a. One-half (8%) of the reserve may be released after the national average market price has reached 110% of the National Commodity Security Price. b. The second half (8%) may be released after the market price reaches 115% of the National Commodity Security Price.

3. Any Carryover stocks in excess of the Security Reserve will be deducted from the National Production Goal. This annual adjustment will prevent surplus from building.

ESTIMATED CONSUMPTION PLUS SECURITY RESERVE MINUS CARRYOVER EQUALS NATIONAL PRODUCTION GOAL

B. *Normal Cropland Acreage (NCA).*—1. A Farm NCA will be established for each farm by a five-year average of the total acres planted to basic crops, including PIK and ARP acreage. 2. A National NCA will be determined by a five-year average of the total basic crop acres, including PIK and ARP acreage, not to exceed the total of all Farm NCAs.

C. *Commodity Base Acreage.*—1. A Farm Commodity Base Acreage will be established as follows:

a. Each farmer may divide his Farm NCA into Commodity Base Acreage that best suits his land, water, fertility and rotation pattern. Total acres of all his Commodity Base Acres may not exceed his total Farm NCA. Once established, Farm Commodity Base Acreage will remain constant except when exchanged as follows:

b. A farmer may exchange one Commodity Base Acreage for another Commodity Base Acreage, provided: (1) Signup for exchange is made in the County ASCS Office two months prior to the mandated date for the announcement of the following year's Commodity Program by USDA. This will allow USDA adequate time to adjust the National Production Quota. (2) Exchange does not exceed 20% of Farm NCA per year.

2. The National Commodity Base Acreage will be the total of all Farm Commodity Base Acres.

D. The National Commodity Per-acre Yield will be a five-year average of national per-acre yields adjusted to reflect average yield improvement trends.

E. The National Commodity Production Acreage will be determined by dividing the National Production Goal by the National Commodity Per-acre Yield.

NATIONAL PRODUCTION GOAL DIVIDED BY NATIONAL PER-ACRE YIELD EQUALS NATIONAL PRODUCTION ACREAGE

F. The National Commodity Quota will be determined (in percentage) by dividing the National Commodity Production Acreage by the National Commodity Base Acreage.

NATIONAL COMMODITY PRODUCTION ACREAGE DIVIDED BY NATIONAL COMMODITY, BASE ACREAGE EQUALS NATIONAL COMMODITY QUOTA

G. The National Commodity Production Quota will then be applied in the same ratio to each Farm Commodity Base Acreage.

Example: If the National Commodity Production Quota is 85% of the National Commodity Base Acreage, each farm may plant 85% of the Farm Commodity Base Acreage.

1. The remaining acres will be placed in a soil and water conservation program (Conservation Acres).

a. No harvested production will be permitted on Conservation Acres. (1) Grazing will be allowed except during the six months normal growing season.(2) Haying will be allowed only when the area is declared a disaster by the local ASCS.

b. Conservation Acres must be rotated annually. No land may be counted as Conservation Acres more frequently than every third year.

c. Conservation Acres must be managed according to conservation requirements of local ASCS.

d. Fragile land may be removed from cultivation by seeding to grass or other approved conservation practices and counted as setaside for a longer period (possibly 5 years). Such a provision might require that setaside acreage be increased to assure removal of average yield equivalent.

2. Total cross compliance will be required.

3. A marketing card will be required for sales of commodities. Compliance will be necessary to receive a marketing card. A penalty will be imposed for non-compliance.

4. Substitution will be allowed when a crop is destroyed by natural disaster after the planting date for that crop. A release must be obtained through the local ASCS.

H. *National Commodity Security Prices.*—To assure adequate and constant supplies of food and fiber, it is necessary to assure the average producer that his reasonable production costs will be recovered. A National Commodity Security price will be set by the Secretary of Agriculture at the national average cost of production, using the average tenant cost of production as computed by USDA on three-year average yields. The National Commodity Security Price will be assigned to each region according to the normal price differential caused by market demand, transportation costs, etc. (Similar to current CCC Loan allocations).

1. Purchases or sales of farm commodities will not be permitted at prices below the National Commodity Security Price for the region except for normal quality discounts for grades below normal trading quality.

2. Price supports will be made to producers at the county National Commodity Security Price less all carrying charges (such as storage and interest) at rates equal to government cost on each. This will assure that there will be no net cost to the government in administering the loan program to enable producers to follow an orderly marketing program.

I. *Exports.*—Exports of agricultural products are essential to the balance of trade and the general economy of the United States. To establish itself as a reliable and stable trader, the U. S. should announce to the world that it will maintain its recent average share of the total world export market and our share of any increase in world consumption and, if necessary, will use: 1. Subsidies to keep the price of U. S. commodities competitive in the world market. 2. Credit programs equal to foreign competition.

The National Food and Fiber Security Program is GSPA's Plan to give farmers flexibility, long-term planning, and an opportunity for profit.

STATEMENT OF ELBREGE SULLIVAN, LAWTON, OK

My name is Elbrege Sullivan a dairy farmer from Lawton, Oklahoma, a member of the Oklahoma Division of Associated Milk Producers, Inc.

I appreciate this opportunity to comment on conditions facing Oklahoma agriculture and to address issues that will be considered as part of the development of general farm legislation by the United States Congress this year. On behalf of my fellow farmers, I want to extend my thanks to you, Senator Boren, for convening this session.

1985 is a year of significance to me personally, Senator Boren, first because it marks the fiftieth (50th) anniversary of my involvement in dairy farming. Second because this year 1985 I face the most dismal outlook of all those 50 years for the dairy farmer. I say dismal because of the "vibs" and position statements coming out of the Secretary of Agriculture's office. Just think back Senator Boren and you will realize that 50 years dates me back to the brink of the "dust bowl" days and the great depression, and you know without me having to tell you that prices for agricultural commodities to the farmer, adjusted for inflation, rivals those of those dust bowl days.

Yes, "Agriculture is at the crossroads", Secretary Block and I agree with that statement, but that is about the only one of the Secretary's statements I agree with. Senator Boren, the Secretary wants to disembowel the only protection agriculture has had through his dismantling of price supports and target prices for agriculture. The Secretary is in gross error when he assumes agriculture can "stand on its own two feet" as well as compete with agriculture's protected and subsidized export competitors. Nothing is said about eliminating protectionism for other industries such as auto, steel, ocean shipping, and others and I have to say those industries including Chrysler have my understanding.

Farmers have been accused of being foolish and greedy when actually they are in the terrible financial crunch today, because they have tried to retool their operations to become more efficient. All in order to provide a cheaper food for the consumer. I don't have to remind you that already the American consumer has the best food bargain in the world when you consider income after taxes spent for food. Even today that food cost percentage is expected to go below the current 15% figure in 1985. If the net farm income agriculture receives were to double from the current 20 billion dollars to 40 billion, the cost of food as a percentage of income after taxes would only go up one percentage point. Europe's percentage figure is more like 21½% I understand, and Europe has the next best food bargain outside North America.

It would seem that events I have been talking about would have little impact on the dairy farmer, but that is not the case. During the late 1970's the dairy farmer enjoyed relatively strong and stable markets. This is not surprising as there was a fairly good economic balance in agriculture during that period. As conditions in other sectors of agriculture declined we began to see a shifting of resources to dairy. This is the reason we in dairy farming are anxious to see a healthy and strong balance in all of agriculture. We are not interested in cheap grain prices.

Now let me tell you about an "almost success" story—and we are all interested in success stories. I say almost because it appears that we won't quite reach our goal of reducing excess milk production by March 31st. I am talking about our current Milk Diversion Program. If we don't reach our goal, it will be because of the action taken by the insistance of the administration to shorten the milk diversion operation from 24 months down to the 15 and the elimination of the disincentive (penalty) feature we dairy farmers wanted. It appears now as though people in the Secretary of Agriculture's office wanted milk diversion to fail.

The Milk Diversion Program has accomplished a great deal of what it was intended to do, lowering CCC purchases from 16.8 million pounds of milk equivalent down to 10, the latest USDA projected figures for 1985 production figures is 6.6 billion pounds, and reducing CCC costs from 2,592 million down to 1,588 million, more than one billion savings from the 1983 costs. All this was accomplished in just one year with dairy farmers carrying the cost of the Milk Diversion rather than tax dollars. Incidentally, Oklahoma dairy farmers participated at a 38½% level in the Milk Diversion Program rather than the much lower percentage figure the USDA circulated.

The dairy industry has established a "Track record" with the Milk Diversion Program without infringing upon any other segment of agriculture, including the livestock industry.

Looking toward the 1985 farm bill, yes, we would like to extend the Milk Diversion Program until the enactment of the 1985 Farm Bill, but we are not pushing for that provision in the 1985 Act. We would like to see provisions of the 1985 Act for dairy do 4 things:

1. Maintain farm income—Not bankrupt the industry as the administration's program would.
2. Reduce government costs—Let the dairy industry carry the load as it did in the Milk diversion Program.
3. Avoid excessive production reduction in any area.
4. Provide for simple and direct administration—Milk diversion was somewhat complicated, a simpler program can be developed.

The dairy industry has a four point program to accomplish what I have just outlined. To satisfy those four points, we in Associated Milk Producers are suggesting a "self-help" type program known as "Two-Tier" pricing. This program is similar to the one in 1982, Senator Boren, that was successful in Congress but met its "Waterloo" at the administration level—they thought our objective was to interfere in the impossible foreign market which was not our objective. I have attached a work sheet example to these presentations that may be helpful in pursuing the study of our two-tier self help program. We in the dairy production business want a self-help program, we don't want deficiency handouts from the Federal Treasury as suggested in the administration's program. We would expect a continuation of the use of approximately 5 billion pounds of milk equivalent, obtained by use of the price support program, for use in the government's feeding and relief programs.

We believe agriculture's "family farm" is what has made this nation the envy of the world; and we look forward in Associated Milk Producers to helping you maintain this concept for the future. Please call on us if we can be of any assistance.

Thank you.

DAIRY STABILIZATION PRODUCER TASK FORCE NATIONAL MILK PRODUCERS FEDERATION

DISCUSSION PAPER—FEBRUARY 4, 1985

The concept outlined in this paper is one option which would work with the new dairy parity, the cost of production adjuster, and the supply/demand adjuster to comply with the NMPF Board directive to "Provide for standby authority for the use of an incentive/penalty program when substantial adjustments are necessary," as an integal part of any program which is developed.

The total concept is designed to: Maintain milk producer's income; restore and maintain acceptable supply/demand balance; place a cap or limit on Government costs; and assure adequate supplies of U.S. produced milk at reasonable prices.

The program would be: Voluntary in that the individual producer would make the decision as to production level in his dairy operation; and full participation in that producers marketing milk in excess of commercial demand levels would contribute toward funding Commodity Credit Corporation removals associated with the surplus by receiving a lower price on these excess marketings.

When forecasted surplus is too high and the temporary supply management program is triggered, the producer would receive two prices for milk. He would be paid: The full market price for marketings equal to the farm's marketing history multiplied by a factor which represents market needs; and a reduced price for marketings in excess of his adjusted marketing history.

Mechanics of the program:

Prior to the beginning of the marketing year, the Secretary of Agriculture would make estimates of marketings and commercial demand for the coming year.

If this forecast anticipates that the price generated by the dairy parity calculations generates CCC removals over 5 billion pounds, the Secretary would implement the two-tier supply management program

The Secretary would then re-calculate the anticipated surplus after implementing the incentive/penalty program. If the implementation of the incentive/penalty program reduces surplus forecasts sufficiently, price support reductions under the supply-demand adjuster can be avoided.

The establishment of a market history:

The marketing history for each unit would be the marketings for the past year (July through June)

There would be no adjustments for hardships, but those who participated in the milk diversion program would have their histories adjusted upward to reflect those contractual reductions

New producers would have a history which is 75 percent of their daily deliveries on an annualized basis. Transfers of history would be allowed only under the limited terms permitted under the milk diversion program.

During the period September 16 through October 15 each dairy farmer will have the farm's marketing history established through the County ASCS Office.

The established marketing history will be certified to the Cooperative Marketing the producer's milk or to the handler to whom the farmer sells his milk.

Implementation of the program:

Total market histories would be added up and compared with the necessary total reductions

If pro-rata reductions are required, they would be made to each producer's history

Announcement of the price support level and application of the two-tier price program will be made by September 15.

As part of the same announcement, the Secretary will establish the price reduction to be applied to milk marketed in excess of the market percentage

This reduction will be sufficient to meet the CCC cost excess of removals.

The Government responsibility would be increased by the milk equivalent (on a fat or solids-not-fat basis, whichever is greater) of any temporary or permanent expansion of section 22 import quotas.

Milk supply and demand, farm income and government cost:

Table 1 compares the supply and demand for milk, Government costs and farm income from the sale of milk under three scenarios—before application of the supply-demand adjuster of the revised parity; after application of the supply-demand adjuster; and using a two-tier pricing program to secure production adjustment.

Under the two-tier program, a national marketing history of 135.8 billion pounds would apply for 1985–86. This represents estimated marketings during July 1984 through June 1985 and fully restores diversions contracted for under the diversion program.

A market percentage of 97 percent represents the marketing history divided by total demand (135.3 billion lbs.) plus Government responsibility (5.0 billion lbs.).

If all producers limited marketings to their marketing history, CCC removals under two-tier would be 4.2 billion pounds at a cost of $774.2 million. Some will increase, others will market less than their adjusted marketing history, others will reduce to the adjusted history to avoid penalty and there will be some unused history representing producers who have left dairying.

Under the two-tier scenario in table 1, the following is assumed:

1.5 percent of history unused; 20.0 percent [1] of marketings under history by 6 percent; 30.0 percent of marketings at adjusted history; and 48.5 percent of marketings at 105 percent of history.

This combination results in CCC removals 2.5 billion pounds higher than would be the case if everyone marketed at the adjusted history level and increases CCC costs by $346.3 million.

This cost increase would be met by a penalty on marketings in excess of the adjusted marketing history. Under the above, producers not cutting back marketed almost 5.3 billion pounds in excess. A fee of $6.57 per cwt on those marketings would be necessary to cover the increased cost.

TABLE 1.—SUPPLY-DEMAND ANALYSIS 1985–86 MARKETING YEAR

Item	Before supply/demand adjuster	With supply/demand adjuster	With two-tier program
Price support (dollars per hundredweight)	12.86	11.86	12.86
All milk price (dollars per hundredweight)	13.86	12.86	13.86
Market percentage			97
Production (billions of pounds)	137.6	136.1	137.4
Farm use (billions of pounds)	2.4	2.4	3.2
Marketings (billions of pounds)	135.2	133.7	134.2
Imports (billions of pounds)	2.6	2.6	2.6
Beginning Stocks (billions of pounds)	5.2	5.2	5.2
Total supply (billions of pounds)	143.0	141.5	142.0
Ending stocks (billions of pounds)	5.2	5.2	5.2
Commercial disappearance (billions of pounds)	130.1	131.4	130.1
Total demand (billions of pounds)	135.3	136.6	135.3
CCC removals (billions of pounds)	7.7	4.9	6.7
Cost of removals (millions of dollars)	1,260.7	809.0	1,121.0
Offsetting fee collection (millions of dollars)			346.3
Net CCC removal cost (millions of dollars)	1,260.7	809.0	774.7
Farm income (millions of dollars)	18,738.7	17,193.8	18,253.8

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[1] An April 1983 staff study by the New York-New Jersey FMMO market administrator indicated that in October 1982 almost 25 percent of the milk in the order was produced on farms which had decreased production 5 percent or more from the previous year. A December 1984 staff study by the market administrator of the Chicago and Indiana FMMO's showed that 29 percent of the nonparticipants in the milk diversion program delivering milk in the two orders were at least 5 percent below their marketing history.

TABLE 2.—COMPARISON OF PRODUCERS SITUATION WITH AND WITHOUT TWO-TIER PRICE PROGRAM

	Producer reducing 3 percent		Producer Marketing at Marketing History		Producer Increasing 5 percent		Producer Increasing 10 percent	
	Two-tier	w/o two-tier	Two-tier	w/o Two-tier	Two-tier	w/o Two-tier	Two-tier	w/o Two-tier
Price support level	12.86	11.86	12.86	11.86	12.86	11.86	12.86	11.86
All milk price	13.86	12.86	13.86	12.86	13.86	12.86	13.86	12.86
Milk marketed (hundred weight)	9,700	9,700	10,000	10,000	10,500	10,500	11,000	11,000
Milk income	(9,700 cwt @ 13.86) 134,442	(9,700 cwt @ 12.86) 124,742	(9,700 cwt @ 13.86) 134,442 (300 cwt @ 7.29) 2,187	(10,000 cwt @ 12.86) 128,600	(9,700 cwt @ 13.86) 134,442 (800 cwt @ 7.29) 5,832	(10,000 cwt @ 12.86) 135,030	(9,700 cwt @ 13.86) 134,442 (1,300 cwt @ 7.29) 9,477	(11,000 cwt @ 12.86) 141,460
Total milk income	134,442	124,742	136,629	128,600	140,274	135,030	143,919	141,460
Average price per cwt	13.86	12.86	13.66	12.86	13.66	12.86	13.08	12.86
Variable costs	77,600	77,600	80,000	80,000	84,000	84,000	88,000	88,000
Return over variable costs	56,842	47,142	56,629	48,600	56,274	51,030	55,919	53,466

Assumptions: (1) 1,000,000 pound marketing history, (2) 97 percent marketing percentage, (3) Variable Cost $8.00 per cwt, (4) Excess marketing fee $6.57 per cwt.

The two-tier price concept—

Complies with the NMPF Board directives for a standby supply balancing mechanism.

Maintains farm income.

Reduces Government costs.

Avoids excessive reductions in any area.

Is administratively simple and direct.

Places burden of increased CCC cost on those increasing production.

STATEMENT OF WILLIAM CRAWFORD, CHAIRMAN OF FIRST NATIONAL BANK, FREDERICK, OK

Mr. Chairman, I sincerely appreciate the opportunity to appear today before this distinguished panel to address the state of affairs in agriculture on behalf of the Oklahoma Bankers Association.

Farmers today are caught in a cost-price squeeze, due primarily to a sustained period of high interest rates, low commodity prices, unusually poor weather conditions, and high production costs.

Over the past 15 years, the cost of borrowing money, and buying fuel, fertilizer, seed, machinery, and other essentials has skyrocketed, while commodity prices have remained low.

This crisis situation has forced many to leave the family farm. In Oklahoma, 3.8 percent of farmers left the business in 1984. This compares with 2.4 percent in 1983 and 2.1 percent in 1982. This is the worst crisis in agriculture since the Great Depression.

The ag picture in Oklahoma will grow dimmer in the next 6 to 8 months. Dropping land values, continuing high interest rates, a strong dollar, and good crops among competing grower nations suggest a tightening financial squeeze in the year ahead. Our nation's debt-burdened farm economy is on a downward slide.

A good barometer of what's happening in agriculture is farmland values. Non-irrigated farmland in Oklahoma sold for an average of $668 per acre in 1979. At the end of 1981, non-irrigated acreage was bringing $812 per acre. In October of last year, the value of non-irrigated farmland had dropped to $634 . . . $34 lower than what it was selling for in December, 1979.

Irrigated farmland has also dramatically declined in value. In 1979, the price per acre was $919. The price jumped to $1,165 in December, 1981. Today, the value of irrigated farmland has slumped to $814 per acre . . . $104 less than 1979 levels.

And the market for farmland has declined along with the value. In some areas of the state, those who can afford to purchase the land are not farmers, or ranchers, but speculators. And most of us would agree that farm real estate values haven't hit bottom yet.

The value of other collateral commonly held by our ag customers has also declined.

Let me give you an example of the cost-price squeeze I mentioned earlier: In 1952, a new pickup cost $1,600, or four fat steers. Today, if you were to buy a pickup with four fat steers, those animals would have to bring $2.72 per pound, instead of the current price of around .63 cents per pound. Simply put, farm products haven't kept pace with farm operating expenses.

A national survey of ag bankers indicates the financial condition of 85 percent of ag borrowers has deteriorated over the past year. That same national survey asked bankers what percentage of their ag borrowers would they be unable to loan to in 1985. The answer: 13 percent. That same question was asked in 1983 and 1984, with the answers being 3 percent and 7 percent respectively.

It's apparent that ag borrowers in Oklahoma and other Midwestern states are unable to service their debt. A 1980 survey of bankers indicated only 8.7 percent of the banks polled experienced a drop in their loan repayment rate. The same question was asked in June, 1984: Is the rate of repayment lower today than a year earlier? Nearly 50 percent of the bankers polled said yes. And when those loans fail to perform, banks must charge them off immediately. Some within the banking industry seek authority to amortize those losses over a 10-year period.

The amount of debt-owed-to-assets-held is at record levels. National figures indicate 16 percent of all commercial-size farm operations (meaning farmers with over $40,000 in annual sales) have debt-to-asset ratios above 70 percent; and 22 percent of farmers have debt-to-asset ratios in the 41–70 percent range. This 38 percent of commercial farmers, roughly 250,000 individuals, who are leveraged above 40 percent in assets owe two-thirds of the total farm debt of about $215 billion. We believe those figures hold true for Oklahoma also.

The best most ag borrowers can hope for is to make their interest payments. Estimates indicate over 90 percent of Oklahoma's full-time farmers lost money in 1984. This alarming figure, coupled with predictions for more of the same for the next 3 to 5 years, has many young farmers voluntarily leaving agriculture. Others leave via bankruptcy.

In the Federal Reserve Bank's 10th District, which includes Oklahoma, farm bankruptcies jumped from .6 percent in April 1983, to 1.3 percent in October, 1984. Foreclosures moved from 1.1 percent to 1.7 percent in the same time frame. Partial liquidations in the same period increased from 4 percent to 5.7 percent.

A western Oklahoma bank reports nearly 50 percent of their 62 ag customers can't service their debt. And almost 10 percent of their ag borrowers may be forced into liquidation within the next year. And some bankers predict that within 3 years, 1 out of every 4 farmers will no longer be in business.

Royalties from oil and gas production have kept many farmers afloat. But, the downturn in that industry is also being felt.

Oklahoma's farmers and ranchers are struggling to survive. They're shrinking their operations, selling off land and equipment, and in turn reducing their debt load. And we're working with them. We realize that agriculture is the backbone of Oklahoma's economy, and we recognize the poor financial condition of most farmers. We are working with them to get through this difficult period. Those ag borrowers that survive this stressed situation will be better business managers because of it. They'll be financially-wise, top-notch managers.

A comprehensive solution is needed to adequately address the farm debt and credit crises.

Any solution to the ag crisis should begin with sincere efforts on the part of the Administration and both Houses of Congress to balance the federal budget. We believe that a balanced budget lies at the heart of any solution to the dilemma in agriculture.

In many cases, interest paid is the largest annual expense item for farmers. When the federal government brings spending in line with revenues, you'll begin to see an easing in the credit markets, and then interest rates will slide . . . and with that, a weakening of the dollar in foreign markets.

However, there are no easy answers to a problem as complex as this.

We sent several Association representatives to Washington last week to meet with concerned bankers from other states. We feel confident that meetings between farmers, lenders, and government officials, and Congressional hearings such as this are steps in the right direction.

But without immediate action by Congress and the Administration, the human tragedy of the agriculture crisis will worsen, and the prospects for the future will appear dimmer, and dimmer.

Mr. Chairman, I thank you.

STATEMENT OF ORIS O. TAYLOR, GUTHRIE, OK

Of all the various programs to aid agriculture, I consider credit the most important. We participated in the PIK Wheat Program last year to near maximum, yet a less than $30,000 Small Business Administration Loan saved us more money than the amount of the payments from PIK.

As a young boy sitting on a cotton sack beside my father in the early twenties I saw him join the cotton growers association. I helped dispose of our cows after they were shot in the early thirties. As a young college graduate I administered the first wheat and cotton allotments and passed on orders to plow up excess acres. None of the practices helped the long time financial situation of the farmer so far as I can tell.

I have always felt that we did not have a Farm Program but a consumer protection program. Last year in Logan County $1,037,000 was given away as Commodities to worthy persons and the school lunch program. Farmers in Logan County at the same time were paid a little over $2,000,000 in the PIK Program and other reduction programs. Logan County is somewhat agriculture oriented. I am sure in Oklahoma County for instance, commodities far exceeded PIK. All of this was a part of the agriculture appropriations and a part of the budget for agriculture. The public only hears of the high cost of government programs for agriculture and do not stop to think of the low cost of food. If the cost of these commodities was added to the cost of the national average we would still have the best and cheapest food system in the world.

In all my years of farming and moonlighting in every kind of work to pay the bills, I believe the only common ground agriculture can meet on is credit. We all need and use credit in the business of producing food. Yet, I have learned that profits from Credit Unions are tax exempt, profit by Federal Land Bank is not taxed, profit by the FICB is not taxed, but, profit made by Production Credit Associations is taxed 4 percent by the State and 46 percent on profit exceeding $100,000. This prevents or discourages local P.C.A.'s from accumulating capital in the good years to overcome losses in the bad years. The only hope for agriculture is to develop a credit system controlled by farm representatives and not by bureaucrats who choose to lobby for laws giving them more power to control. The control they seek and have is the source of credit money under our current system. They have failed to promote and use the right to sell tax exempt bonds on any level except Eastern bond markets, they use scarce tactics of fear we will lose the privilege to sell on that market if we offer bonds on a local or state level.

There are two areas of credit crisis in agriculture today, the farm borrower and the agricultural lender. The farmer has stayed in business for years on inflation rate off setting interest rates on land and equipment. Cash flow is a new monster that is eating away the equity in land and operating capital. With inflation turning to deflation, outside investors have left the land market and land prices have dropped from 20 to 40 percent and there is no market for land. There is no financing available for 80 percent loans, in order for land prices to stabilize. Land prices will continue to fall until something changes the loss picture to profit in agriculture. The second crisis is local agriculture lenders. Credit from local lenders, including P.C.A. has become a major crisis. P.C.A. began in the middle 1930's with government help in the form of Bonds. The P.C.A. paid these off December 31, 1959.

As I understand at that time they became subject to Income Tax. Compare this to the many Credit Unions throughout the country who enjoy a tax exempt status. Compare this to the F.L.B. and FICB who enjoy a tax exempt status. P.C.A's are subject to a tax of 15 percent on the first $25,000, 18 percent on the second $25,000, 30 percent on the third $25,000, 40 percent on the fourth $25,000 and 46 percent on all over $100,000 plus a 4 percent State tax in Oklahoma. This has kept or rather discouraged local P.C.A. from developing large capital assets and reserves for excess bad debts. Tax payments for the 9th Region (Colo. N. Mex. Kans. & Ok.) is shown in the summary of operation for P.C.A. for the years 1981-82 and 83 were $8,172,072. Oklahoma P.C.A. paid $2,112,817 for the same period.

The people working in my area of P.C.A. are well educated, well trained and dedicated people. If there is an answer to farm financing it will come from this group of farm leaders and professional people. Farm Credit is a unique problem of many factors. It is large business that involves cash flow, capital as well as labor and management. I believe these people have the best grasp on agricultural economics anywhere. They can be the nucleous for monitoring farm operations and most helpful in counciling with farm owners of middle sized operations. They look for trends, are able to point out possibilities so that the farm owner can make the decision as to what he wishes to do. These P.C.A. employees follow the rules and interpretation of the laws handed down from persons who have more authority. They cannot overcome the pattern set that promotes the accumulation of control factors originating from persons outside these local groups. The greatest of these is to perpetuate the need to sell bonds to finance loans.

The development of capital in the Regional office where it can be drained off through benefits, capital investments and the use of bureaucratic practices of unnecessary personnel to administer unnecessary supervision of the local P.C.A.

To control the money sources for agriculture is to control agriculture. The greatest factor in recovery of agriculture is to reduce the cost of production even at the cost of productivity. The cost of money is one of the greatest causes of failure on the farm. The help given farmers through so called farm programs has not helped the farmer nearly as much as it has the consumer. I would like to see a system developed for farmers, controlled by farmers, operated by persons with agricultural backgrounds with the necessary limitation to prevent outside interest to take advantage in the good years and let them sink in the rough years. Not everyone can have the discipline, ambition and capital to become a farmer. All persons cannot succeed at their chosen profession. There are few people now on the farm who would not be successful and have a good life if they are given an even break. I am trying to help obtain that break for them. We need laws that give them that opportunity to succeed. Farming is a life time profession and not for "in and outers." I believe in hard nosed tactics and even breaks for agriculture. The farmer spends his life developing his operation and when he retires and sells he pays taxes on capital gain. He has invested every dollar he could in this farming operation. He should have the privilege of rolling over this capital into an agriculture tax exempt bond as would be allowed with an IRA. The farmer should have the same opportunity as his doctor or lawyer who invests his retirement funds in real estate and has the privilege of a roll over when he sells.

Agriculture has faced a crisis for many years due to the narrow margin between cost of production and market value of the produce. To overcome this small margin of profit farmers have continued to expand the size of farms and unit productions. They have been able to continue borrowing money on the margin of cost over current value but when values of land, cattle and equipment ceased to inflate and began to deflate marginal units no longer could show value over debts. The outside investors seeing the rise in value cease, sold land, equipment and livestock. The real farmer stayed. There needs to be a license system developed by farmers so that the progress worked for at this time is protected. Agriculture and politics are the only skilled professions left that do not require a license to practice. The license would be a part of the lending process and possible income tax.

We in our P.C.A. have found our margin slowly, then swiftly, deteriorate. On loans that are graded down we get only a percentage credit from the FICB, some, we get no credit or loan value. We take losses but do not have enough reserves to cover all these losses. We have developed a limited capital reserve. Why are we in this condition? We could not develop a large capital without paying high income tax. If there are laws which cause us to pay tax on profit, this should be corrected. These corrections should be made so that in the future P.C.A. can become more independent. Local P.C.A.'s can sell tax exempt bonds to whomever may purchase them yet no one knows this and none are sold. We are advised that it might hurt our agency status. The agency status is the power F.C.A. has over the whole organization. That power needs to be centered in agriculture rather than in banking.

CONCLUSIONS

1. Acreage controls have not solved the farm problem as much as it has to solve cost of living.
2. P.C.A. needs tax breaks as are given to labor credit union and the FICB and FLB.
3. Agriculture credit cannot be dealt with as other credit risks. We need to use the knowledge now available in the field to solve some of our credit problems.
4. We need to cultivate an alternate source of bond sales . . . To give farmers the privilege of a "roll over" on the capital in farming to bonds, would be a beginning.
5. No farmer fails because he wants to. To add the broader scope of loan officers to aid analysing the farm operation would benefit many. P.C.A. loan officers are skilled farm credit analysts.
6. Those who control the source of money control the direction of business.

STATEMENT OF ELLIS FREENY, OKLAHOMA CATTLEMEN'S ASSOCIATION

Thank you for holding these hearings and giving us an opportunity to come here and make this brief statement.

I am Ellis Freeny representing the Oklahoma Cattlemen's Association which is made up of some five thousand cattle producers and feeders.

Our mission is to advance the economic, political and social interests of Oklahoma's cattle and beef industry.

We are spending some of our money toward research in an effort to develop new beef products and to answer nutrition-diet and health questions where necessary, along with a strong program and effort to expand beef sales in international channels of trade.

Many changes are occuring in the cattle industry. There is no political solution to the economic problems we are facing. We approve your bipartisan approach to helping solve our problems is vital.

Stress in the cattle industry is caused by declining land values, high interest rates, high debt service cost and negative cash flow.

We recommend that: 1. Federal spending be reduced; 2. The national deficit be reduced which would, hopefully, lower interest rates; and 3. That Congress take no action that would impact on the nations beef cattle industry.

There are no overnight solutions to agricultural problems. The next two are not major problems, but would help improve conditions in our industry.

We would recommend that you continue your support and effort for the "Farm Products Buyers Protection Act." It is simply unfair to hold a cattle producer or cattle feeder liable for double payment when he innocently and unsuspectingly purchases mortgaged livestock or grain. Especially when these commodities may be from several states away.

Several states have amended or repealed the agricultural exemption under the U.C.C. (9-307-1). It is no longer a state problem, but a national problem. The Farm Home Administration or any other lender can make a livestock loan without regard to its soundness because they know they have the entire livestock purchasing industry backing the loan. These lenders should be responsible for the maintenance and collection of their loans.

Simply put, it is not practical for liens to be checked, particularly in other states. Livestock are a product of interstate commerce. Therefore, a uniform law should be adopted, applicable to all states. State legislation will not protect buyers of livestock from the Federal Government and F.H.A. with a six-year statute of limitation on conversion cases.

Number two, continue your sponsorship of Senate Bill 593 which will provide for Interstate shipment of state inspected meat. Current law requires that state inspected meat be equal to or exceed federal standards for wholesomeness, cleanliness and freedom from residues. However, the same law prohibits the sale of state inspected products to nearby markets across state lines.

We believe these changes will enhance the value of Oklahoma livestock by expanding and adding efficiency to the distribution system.

Help preserve individual choice in management of land, water and other resources and provide an opportunity to compete in foreign markets.

STATEMENT OF ROBERT ROSS, PRESIDENT, OKLAHOMA SOYBEAN ASSOCIATION

The American farmer, and the almost free enterprise system, has for many years provided a plentiful supply of safe, nutritious food to the American consumer for less cost, by far, than in any other country in the world.

The average consumer in the United States today pays 16.7% of his salary for food. Figures in that 16.7% is the 50%, 10 meals per week, consumed in restaurants. In England 29% of their income is spent on food and they eat out an average of twice a week. In Russia 50% of their income is spent on food and they eat out an average of one time in 6 months.

Now who is subsidizing who? The American farmer has for years received less of the consumers dollar than farmers in any other country. Because food is and has been plentiful in the United States for many years that fact is not considered or appreciated by the majority of the American consumers.

The PIK program was costly to the American taxpayer. The program was mislabeled, however, it should have been called "payment for problems created by embargoes" which killed our export markets and created major competitors for those markets. High interest rates, the over valued dollar and lingering results of the embargoes have cost the American farmer much more than the farm program cost the American taxpayer. These problems are the creation of our own government policy makers.

Generally the Oklahoma Soybean Association favors a true free market where price is determined by supply and demand. We continue to favor a loan based on 75% of the average price for the last five marketing years, droping the high and low years. No allotments.

When we say free market, we mean a market free of government hindrances, no embargoes or threats of embargoes of food commodities, no requirements to use overprices cargo preference shipping, no U.S. financed competition for foreign countries either directly or through U.S. financed World Bank, no subsidy for us or our competitors. If our competition insists on subsidizing their exports our government should offer the same amount to make our product competitive with that subsidizing country.

The OSA favors a balanced budget. High interest rates and the overvalued dollar are the major causes of the farm financial crisis today. The Federal Government should live within its income and remove itself from competing for money on the open market.

The overvalued dollar has made our unprofitable commodities too expensive to compete in foreign markets, costing us foreign markets and many jobs in the U.S.

The government should assume some responsibilities. (1) Agricultural research and education benefits all U.S. citizens and should be continued and even increased.

Agricultural research benefits consumers far more than producers. Approximately 10 years of benefits for consumers vs. 2 years benefits for farmers. (2) Protect U.S. agricultural producers by guaranteeing free trade. (3) In all cases agricultural commodities imported into this country should be required to meet the same standards of health that domestic producers must meet.

Agricultural exports are one of the few pluses in our balance of trade position. Therefore, for the benefit of all U.S. citizens, the government should increase its financing and encouragement in the development of foreign markets for agricultural products.

Since it is in the interest of all U.S. citizens to save and protect our soil, and since the lack of profit in agriculture will not allow the farmer to pay for all soil conservation practices needed, the government should consider financial assistance for the good of all citizens.

Federal loans have helped many, hurt many and in many cases delayed the inevitable; put many into enterprises doomed for failure as soon as Federal assistance disappeared; caused many to make bad judgments and total mistakes. Many good, hard working people are just not made to work for themselves. For these federal financing is totally wrong and destructive. It also harms those farmers who do make good decisions and sound judgments. With some exceptions, most farm failures are due to poor financial judgments. Should the Federal Government make special financial low interest loans to farmers? Sometimes yes, sometimes no. But of one thing we can be sure, a lot of small farmers have been producing food in plentiful supply for U.S. consumers for along time and I don't think a few large farmers would allow their products to sell so cheap.

Thank you.

STATEMENT OF DUTCH MILLER, OKLAHOMA PORK PRODUCERS

Five years ago, Oklahoma pork producers marketed approximately 500,000 hogs. In 1984, production was down to approximately 250,000. With that in mind, our policy recommendations are made. What we seek is fair play and equal treatment. We do not want the government to unreasonably raise our costs of doing business, whether it is in the form of interest rates at a level exaggerated by government fiscal policies or in the form of charges for feed or energy that are unnecessarily inflated by federal limitations upon production or taxation.

We do not want the government to welcome competitive pork production from foreign countries, whose export to us is subsidized by their government without adequately enforcing the fair trade laws now in effect or to place us at a competitive disadvantage by encouraging the unnatural and excessive marketing of domestic red meat that will depress the prices we might otherwise secure. We do not want the government to favor producers of any one commodity if the result is to harm producers of other commodities.

Our current monetary-fiscal policy, characterized by immense deficits and attendant high interest rates, directly hurts pork producers. The same high interest rates help boost the value of the dollar and undermine our competitive ability to export our agriculture products, resulting in disappointing commodity prices. The dollar's value also functions to attract producers from foreign countries to invade our domestic markets. Foremost in the pork producers mind is the current Canadian imports of live and frozen pork. We endorse the government to reduce spending, and thus, the deficit.

We urge the government to undertake appropriate efforts to assure the survival of independent, owner-operated farms in order to preserve the rural way of life, which in our opinion, is the anchor of America. We believe that reduced budget deficits and enhanced market prices for commodities are the most reliable solutions.

We encourage the government to explore and implement a wide range of export promotional activities that would increase the demand for American agriculture without excessive budget cost. We are opposed to trade embargoes or any threat to utilize them applied to any goods or services produced in the U.S. and intended for sale overseas. Such action only undermines the confidence of the overseas consumers in our reliability as a supplier.

We endorse the continuation and expansion of research that would lower cost and enhance consumption through, (1) promoting the acceptability of pork and pork products as a healthy component of the normal American diet, (2) extended shelf life of pork products, and (3) improve the collection and distribution of market information and supply forecasting in order to help smooth out the up and down cycles of production. We urge the Congress to review the current process of developing public policy relating to nutrition messages to consumers. Government messages to consumers must not pit one government agency against another.

Government purchases should not discriminate among competitive meat products. In fiscal 1983, for every $10 worth of beef purchases, only $1 worth of pork was purchased, and $7.50 worth of chicken and turkey for every $1 worth of pork. In the school program alone, the beef to pork ratio was 30 to 1 and the poultry to pork ratio was 20 to 1. These discriminatory purchases suggest to school children that it is better to eat beef, chicken and turkey than to eat pork. We encourage the government to exhibit equality among competing meat products in handling its commodity purchases and donations.

We oppose any national sale or value added tax that would have adverse impact upon the retail sales price of pork and pork products, and therefore, support an exemption for all foodstuffs from any such tax program at the federal level.

We also support the development of a long term program of credit for agriculture and also encourage Congress to thoroughly study commodity programs and make decisions, based on the welfare of the whole agriculture community, not just strong well-financed commodity groups.

Thank you, Senator.

STATEMENT OF JACK KELSEY, PRESIDENT, OKLAHOMA FARMERS UNION

I am Jack Kelsey, President of Oklahoma Farmers Union, a general farm organization. We appreciate Senator Boren arranging to hold this hearing in Oklahoma. The Senator has already sounded the alarm that action must be immediate to divert the on-rushing crisis in rural Oklahoma.

The message that must be delivered is that the Administration's proposed farm program is a disaster for the future of fifty percent of the family farmers.

At the present time 25 percent of farmers are facing bankruptcy. The Administration's proposal if enacted would ensure their demise and probably another 25 percent due to the domino effect resulting from further collapse of land values. This would be the end of rural America as we have known it.

What should be done? A combination of price support loans and target prices must at the minimum cover the cost of production, including land. Credit and loan guarantees can be of short term help but farmers must at least have enough income to cover the cost of production.

In the meantime, the entire farm credit situation needs attention. To forestall the immediate bankruptcy of 25 percent of American family farmers, the FmHA should guarantee 95 percent of the delinquent farm loans held by private lending institutions. In addition the interest on all farm production loans should be reduced to improve the cash flow situation.

It is also recommended that the bonds held by the Federal Land Banks be guaranteed and that the PCA's bonds be guaranteed at the local Association. This will remove any doubt about the likelihood of undue farm foreclosures. Practically all lending institutions are holding the line on foreclosures. They need assurance that something will not happen that starts a stampede to bail out.

To much blame has been placed on the farmer for his predicament. Factors beyond farmers control created the present situation—all-out production being encouraged by the U.S.D.A. during the 1970's, the embargoes, the record high real interest rates with the over-valued dollar. With the dollar being over-valued 30 percent, it is acting as another embargo. Exports are blocked and the flood gate is opened to imports, with some foreign agriculture imports being subsizied by their governments.

Farmers did not create this dilemma. They are victims of it, and the end result, if not immediately corrected, is becoming clear for all to see. If the American family farmer goes under, the entire nation will pay a price much greater than what it would take now to solve the problem.

The corrective measures outlined in this statement are intended for bonafide family farmers. They should not be extended to investors.

On behalf of the members of Oklahoma Farmers Union, we appreciate the opportunity to present this statement.

STATEMENT OF JIM LOCKETT, OKLAHOMA FARM BUREAU

Senator Boren and Members of the Committee, Oklahoma Farm Bureau welcomes this opportunity to bring to the committee the views of the Farm Bureau on the coming farm bill.

We conducted a series of fifteen meetings a year ago, kicking off lengthy discussions on what members wanted in the new farm bill. Approximately 500 members participated. Last fall, many county Farm Bureaus had special meetings, just to talk about the farm bill.

We came together at our state convention and talked about it some more. Finally, we sent delegates to our national convention, where policies on national and international issues were established.

The overriding thought that came through, loud and clear, was that before any farm bill could succeed, the congress must get its money affairs in order.

To get more to the point, our members want federal spending cut.

Our members do not want any increase in taxes.

Net farm income is, of course, very depressed. Farmers and ranchers are in no mood for any kind of tax increase.

On the other hand, possibly the biggest problem, that most commercial farmers and ranchers have right now is the high cost of interest. Not until Congress signals the money markets that they are serious about reducing the deficit significantly will interest rates come down.

When interest rates come down, the over-valued dollar will lose some of its strength, increasing the possibility of exporting more farm products.

We want the record to show our highest priority is cutting federal spending.

With respect to the farm bill itself, we feel the time has come, after 50 years, for a new direction on farm legislation.

We have been functioning as the warehouse of the world, and sometimes have become the supplier of last resort. We are the only nation that really tries to cut back on production, and when we cut back, our competitors expand.

We are again in a serious surplus condition in most major crops, made worse at this time by a worldwide recession, weather problems, and high interest rates.

But we have some new ingredients. Nations which once imported our wheat are now exporting. More and more nations are becoming more efficient producers of agricultural products and are competing with us for markets.

Farm Bureau has always supported the price support loan mechanism, as a tool for orderly marketing. Indeed, Farm Bureau was one of the original architects of the idea.

But, price supports cannot function as they are supposed to if the level is placed artificially high—so high that it not only is the floor, but also the ceiling.

Congress must write the farm bill to allow price supports to function as originally intended.

We have two basic options. One is rigid controls of bushels and pounds, to drastically shrink production, mainly to supply domestic markets.

The other is a decision to compete with the world, and to let the market have more input in making the most critical decision; the level of price supports. In the past, many times this decision has been made on a political basis rather than an economic basis.

We reject the rigid controls option, considering it a road to chaos, and not a solution at all.

We favor these basic ideas, most of which are mainly fine tuning of present programs.

1. Wheat, feed grains, soybeans, rice and cotton price supports must be geared to the market, much like soybeans today. For soybeans there is no farmer-held reserve and no target price . . . only a price support set by formula. That formula takes the five previous years average market price, throws out the high and the low, and uses the three middle years. Soybeans are supported at 75% of that average price.

We recommend no more than a 10% change in a support price in any year.

2. We recommend target prices and deficiency payments be used to supplement farm income for wheat, feed grains, cotton and rice producers in the time needed to make the transition to an era when supplies are more in line with demand. Under this proposal deficiency payments should, in a few years, shrink as market prices improve.

3. The farmer-held reserve was first enacted to assure an adequate supply of food. Instead it has simply turned out to be more surplus overhanging the market. We recommend it be terminated and replaced with a more generous loan repayment system. We recommend nine months loan without interest, and a nine month extension with interest. This additional time gives the producer more opportunity to use his loan as a marketing tool, instead of as a market.

4. When wheat and feed grain stocks exceed four percent of the annual world utilization, a voluntary land diversion program should be mandated and participation

would be required to be eligible for program benefits. When cotton stocks exceed 3.5 million bales, a similar program should be required.

5. We favor a long term conservation reserve program for erosion-prone land.

6. We will urge vigorous programs to increase exports, including the use of export credit revolving funds and blended credit exempt from cargo preference.

7. Regarding a national dairy program; we favor a system where the price support level would be automatically adjusted according to the amount of net dairy products purchased by the Federal government and oppose any assessment of producers by the Federal government as a part of any future diary legislation.

8. We recommend no substantive changes in the programs for peanuts or wool.

We recognize that many of the problems facing farmers and ranchers cannot be addressed in the farm bill. To list a few of these, they include inflation, interest rates as stressed earlier, pollution and pollution control regulations, environmental programs that hamper control of insects and predators, and pressures on the American diet that have already affected consumption of red meats, eggs, dairy products and other foods.

Senator, our goal is improved net farm income. We know this is a common goal and we know there are varying ideas of the best way to achieve it.

We have done the best job we know how to arrive at a consensus of our members' views—not all Farm Bureau members agree with the stand our organization takes on every issue, but the forgoing represents the majority view within Farm Bureau.

There is virtually unamious agreement among us that a balanced budget and reduced federal spending would in time solve many of the problems we are now facing.

Thank you.

[The following information was submitted by Gene Sawyer, president, Oklahoma Association of Conservation Districts, see p. 33 for the oral testimony of Mr. Sawyer.]

Conservation Facts for Oklahoma

1. The Soil Conservation Service provided technical help to 45,848 individuals and groups in fiscal year 1984. Over 27,000 of these applied a conservation practice.

2. Conservation planning assistance was provided to land users covering 1.3 million acres in fiscal year 1984.

3. Seven million dollars was provided by SCS for construction of watershed lakes and critical area treatment agreements with landowners in fiscal year 1984.

4. Over $1.2 million of cost-share assistance was provided to land users during fiscal year 1984 for Great Plains Conservation Program contracts. Over $30 million has been obligated through SCS for cost-share to land users since the beginning of the program. Oklahoma has 228 applications for new Great Plains contracts which are awaiting funds.

5. Over $420,000 was obligated during fiscal year 1984 for contracts through the Rural Abandoned Mine Program. Almost $1.9 million has been obligated through this program to date.

6. In fiscal year 1984, 13 new measure plans were approved obligating over $195,000 under the Resource Conservation and Development Program (RC&D). To date, Oklahoma has either completed or is working on 93 measures costing $3.6 million.

Conservation Needs in Oklahoma

Although 60 percent of the land in the state has adequate conservation treatment, problems on the remaining 40 percent are often very serious.

1. Oklahoma ranks 4th in the nation in the amount of soil loss from streambank erosion.
2. Ranks 6th in gully erosion.
3. Ranks 4th in erosion from construction sites.
4. Ranks 13th in roadside erosion.
5. Over 4 million acres, or 35 percent, of the state's cropland are eroding at rates greater than the allowable soil loss.
6. Over 63 million tons of soil are being eroded on cultivated cropland each year. That would fill 1½ million box cars.

7. Sixty-two percent of the state's rangeland, 51 percent of the pastureland, and 65 percent of the forestland, needs conservation treatment to adequately protect them from erosion.

8. Over 113 million tons of soil are eroded each year by sheet rill and wind erosion.

STATEMENT OF C.B. BROWNING, DEAN OF AGRICULTURE, OKLAHOMA STATE UNIVERSITY

Senator Boren, thank you for inviting me to be here today. I am Charles Browning, Dean of the Division of Agriculture at Oklahoma State University. I am also Director of the Oklahoma Agricultural Experiment Station and the Cooperative Extension Service.

This is not an unusual experience for me. I have on occasion been asked to testify before committees of the Congress or the Legislature. Usually I am justifying a request for more money or for additional programs in Agriculture research and education. That would be appropriate today since my job and the job of those I represent is to help farmers and ranchers improve efficiency and squeeze more income out of every commodity. Yet in times when they need our help most, the Federal government continues to threaten this time- and result-proven system with decreased budget support. But that is not why I am here today.

I am here to speak in behalf of Oklahoma's farmers and ranchers because they are in the midst of a crisis which, unless it is dealt with, will change forever the face of the nation and our society. This is an emergency situation that cannot wait for the 1985 Farm Bill.

We know these people. We have worked with them in groups and on a one-to-one basis for years. Faculty and staff from Oklahoma State University have been helping and teaching the farmers and ranchers of this state, as long as there has been a state and I am not exaggerating when I tell you that their situation has never been more serious. Net farm income was lower in 1983 than anytime since the 1930's.

In 1979 Oklahoma's per farm income was estimated to be $12,065. In 1983 Oklahoma's per farm income was estimated to be $2,849.

As their income has declined these farm families have had to go deeper in debt in order to stay in business. In 1981, Oklahoma farmers and ranchers owed 4.6 billion dollars. That has increased to 5.6 billion dollars in 1984.

But as their debts have increased, the value of their farm land . . . the security for those loans . . . has been dropping. Land prices in Oklahoma have decreased over 25% since 1982.

These falling land prices make the debt picture much worse than it seems on the surface, because the decrease in asset value means a significant increase in the critical debt to asset ratio. That ratio is climbing steadily. It averaged 16.9% in 1980. It is up to 21.5% as of 1984. The debt on non-real estate assets went from 40% of value in 1980 to 56% in 1984.

Our research and research by the Federal Land Bank suggests that when a farmer or rancher reaches a 35% debt-to-asset ratio he begins to have considerable difficulty generating enough cash flow to stay in business. At the present time, 30 to 35% of Oklahoma farmers and ranchers have already reached this critical figure. One third of our producers are in serious financial trouble.

The reflection of this fact is becoming more evident across the state. Small town banks are being stressed. Some are failing. Implement dealers are closing up. Fertilizer and chemical dealers are feeling the financial pinch. Who will be next? One thing is certain: No one in rural Oklahoma will escape the consequences of wholesale financial failure on the farm.

Everyone in Oklahoma knows about erosion. We learned a lot about it during the Dust Bowl. Erosion doesn't look like much at first . . . just a little gully here and there during a rain . . . or a little blown out corner after a strong wind. But it never gets any better unless you do something about it. You simply wake up one morning and the land is gone.

That happened a lot in Oklahoma in the 1930's. But then we learned how to do something about it. We planted shelter belts of trees and changed the way we plowed and the way we planted. We did not repeal any of the laws of nature. Water still fell and wind still blew, but because we changed the way we worked with nature we survived.

I am not here today to suggest that we ought to repeal any of the laws of economics or propose a drastic modification of our economic system. What I am saying is that our agricultural strength . . . the greatest food system in the world . . . is eroding away right before our eyes. And this is happening in spite of relatively large Federal government expenditures designed to help American agriculture and the American consumer. The industry has over expanded in relationship to expected worldwide markets—both the overexpansion and the significant depression of export markets can in large part be traced to ineffective government policies not to inefficient farmers and ranchers. Massive federal deficits, high real interest rates, high value of the dollar in international markets, and the inflated prices of everything that goes into producing food and fiber are again nonfarmer and rancher caused problems. It would seem not only inappropriate but unjust for the Federal government at this point to want to "wash their hands" of the farm problem.

We have got to build some economic shelter belts to keep our efficient farmers and ranchers in business until our country's economic health has a chance to improve. And I for one believe that a strong American agriculture effectively competing in the world market place is essential to a healthy U.S. economy.

STATEMENT OF LAVERNE JOHNSON, PRESIDENT, OKLAHOMA PEANUT GROWERS ASSOCIATION

Mr. Chairman, I am LaVerne Johnson of Fort Cobb, Oklahoma. I am President of the Oklahoma Peanut Growers Association and a member of the National Peanut Growers Group Steering Committee.

We believe that no group of agricultural producers has worked harder or sacrificed more in recent years to help bring about an acceptable program.

Mr. Chairman, the peanut price support program does work! The peanut program has had a stabilizing influence on each state, county, community and family farm involved in peanut production. The peanut program has maintained farm prices and income at higher levels than would have prevailed without the program.

The traditional program has provided a continuous supply of reasonably priced peanuts to the market while maintaining net returns to producers at satisfactory levels. However, due to increasing cost exposure by the Commodity Credit Corporation that resulted from the statutory minimum support rate of 75 percent of parity and the minimum national acreage allotment of 1,610,000 acres, the program was legislatively amended in 1977 to deal with these two provisions as well as with other aspects of the law. In 1981 Congress enacted additional program modifications to assure a continuation of program cost reduction and to suspend acreage allotments in order to permit unlimited production of peanuts by all producers. That development provided vastly increased potential for the production of "additional", or nonquota peanuts for the export market.

The present two-price program with a sharp reduction in quota production has substantially lowered program cost but has at the same time provided flexibility for the production of "additional" peanuts to supply export markets. Under provisions of the program shellers can forward contract for the production of such peanuts to be exported. At the same time the basic elements of orderly marketing of the crop with effective quality control are retained.

THE NATIONAL PEANUT GROWERS GROUP POINTS TO THE FOLLOWING PROGRAM ACHIEVEMENTS

1. Program cost has been reduced to negligible levels by putting in place a strict poundage quota. A series of annual reductions in the quota has reduced the supply of CCC stocks of quota peanuts to only a fraction of the pre-1978 level. Cost of the 1982 crop is reported by USDA to be $4.2 million. The 1983 crop cost is expected to be even lower and even the 1984 crop with a record high level of production will result in little, if any, cost to taxpayers.
2. CCC's management and administrative burdens with respect to handling and disposition of CCC peanut stocks have been grossly reduced
3. The two-price plan provides a vehicle for providing a continuity of supply of peanuts for export, although it involves somewhat greater financial risks for growers and handlers
4. Supply of peanuts to domestic consumers has continued in an orderly fashion except for the 1980 crop disaster
5. Objections to high quota leases have been satisfied to a large degree by severe restrictions placed on quota leasing and
6. Unlimited production by all producers is now permitted by virtue of acreage allotment suspension.

Recommended program changes

We feel that the following fine tuning must be accomplished in the 1985 Farm Bill:

1. *Increase in the national poundage quota.*—The present national poundage quota of 1.1 million tons is about 200,000 tons below domestic edible and seed demand. An adjustment in the poundage quota to 1.3 million tons would not be expected to result in program cost since the result would be a balancing of domestic supply with demand.

2. *Tighten and clarify provisions in the marketing of additional peanuts.*—In order to effectively control program cost with the quota poundage set at the estimated domestic edible use level, it would be necessary to prevent the conversion of contracted additional peanuts into domestic markets. In other words additional peanuts must only be contracted for export or crushing and such peanuts must then either be crushed or exported.

We will offer legislative guidelines to deal with this matter.

3. *Strengthen quota price provisions.*—The quota price support rate should be adjusted to more realistically reflect the continuing production cost increases experienced by growers. Since the first major amendment to the program occurred seven years ago in 1978 growers have received only one meaningful price adjustment through administrative action of a Secretary of Agriculture. A nominal increase of $35 per ton, or approximately 8 percent, was granted in 1980 raising the support level from $420 to $455 per ton.

Under the 1981 law no adjustments were made in the quota support level through the first 3 years of the 4-year farm bill. For 1985 the Secretary announced recently that the quota support level would be increased $10.60 per ton, an adjustment of under 2 percent. Such a token increase will, of course, do nothing to relieve the financial stress of Oklahoma peanut producers.

Product manufacturers

The peanut product manufacturers have served notice through a Washington, D.C. press conference held last December 13 that they intend to make every effort to eliminate the present peanut program. For the record, Mr. Chairman, I wish to point out that the National Peanut Growers Group took the initiative in early 1983 to set up discussions between the grower and manufacturer segments of the industry.

There occurred four such meetings with peanut sheller representatives joining us in the last two sessions. A spokesman for the manufacturers stated last June that the manufacturers were looking forward to continuing the discussions with growers. But they later failed to respond to our suggestion of future meeting dates. The point I am making is that peanut growers have made a bona fide effort to work out program differences with manufacturers, but at this point in time there remains no indication that the manufacturers have any interest in continuing to try to resolve the differences.

Present program framework best

In summary, the framework of the present program provides the capacity for an adequate supply of peanuts at reasonable prices, provides an effective vehicle by which the grower can best market his peanuts, provides a means by which supply and demand can be balanced, provides flexibility for production of peanuts for export markets for the more efficient growers and provides a reasonable basis for financing the production and processing of the crop—all at negligible cost to taxpayers. We believe the basic framework for the current program must be continued in the new farm bill.

Mr. Chairman, peanuts rank about third in agricultural gross revenues for the state of Oklahoma. Crop receipts were in excess of fifty million dollars for 1984. Those figures relate to a three hundred and fifty million dollar business for the state of Oklahoma after an average turn over of seven times for each dollar.

Without a doubt, gentlemen, Oklahoma peanut farmers will be a vanishing breed without legislation to preserve the peanut bill within its present framework.

I heard our President in his State of the Union Address quote an old proverb "As the family goes—So goes civilization".

Mr. Chairman, farm families in my area are all but bankrupt and some being forced to leave their way of life. History points out that more governments have failed from lack of internal security than from lack of armies, ships, airplanes, or bullets. I believe food and the ability to produce it is the very core of any nation's security.

Mr. Chairman and colleagues, rural Oklahomans stand in your debt. We trust and pray every day that you will in some miraculous way persuade urban Senators and Congressmen to support the family farmers.

Thank you.

STATEMENT OF CLEMENT E. WARD, PROFESSOR AND EXTENSION ECONOMIST, OKLAHOMA STATE UNIVERSITY ON BEHALF OF OKLAHOMA PECAN COMMISSION AND THE OKLAHOMA PECAN GROWERS ASSOCIATION

Representatives of the Oklahoma Pecan Commission and the Oklahoma Pecan Growers Association requested me to present a statement concerning marketing needs of the pecan industry in Oklahoma. While I will concentrate on marketing needs in the pecan industry, my comments are applicable to many other agricultural commodities.

Without question, cattle and wheat are the predominant sources of cash farm receipts in Oklahoma. Pecans, along with several other commodities, represent a relatively small share of Oklahoma's cash farm income. However, these often-called minor commodities represent important substitute enterprises for many Oklahoma farmers and ranchers or are important as supplementary farm income to one or both of the major farming enterprises.

The financial plight of many farmers and ranchers in Oklahoma and throughout the U.S. is well-known. Rather than repeat the problems or symptoms of underlying problems, I will focus on opportunities for improving the agricultural outlook.

Farmers and ranchers are frequently asked about the priority problems in agriculture. One commonly-mentioned problem is marketing. Most agricultural producers admit to being efficient producers but poor marketers. Electronic markets are an alternative to our conventional marketing systems for many commodities. They have evolved out of a need to solve numerous problems related to marketing agricultural products. However, it must be emphasized that they will not solve all marketing problems in agriculture.

Attached to and meant to be a part of this statement is an Oklahoma State University Extension Facts prepared recently. It explains what electronic marketing is, states which marketing problems electronic markets can help resolve, describes several electronic markets in Oklahoma, cites examples of benefits resulting from electronic markets, mentions several opportunities for additional electronic markets, and discusses how to start an electronic market.

Just over a year ago, an exploratory extension meeting was held concerning the applicability of an electronic market to pecans in Oklahoma. The meeting generated sufficient interest and optimism to begin studying the feasibility of such a marketing program.

A survey of pecan growers and buyers was conducted in October and November of last year. Results of the survey will become available this coming summer. Preliminary analysis suggests an electronic market for pecans may contribute to more efficient marketing and buying of Oklahoma pecans. For example, three of the four major marketing problems of pecan growers are problems that electronic markets have demonstrated they can help resolve. Those three are: inadequate price premiums for high quality pecans; inadequate market information; and insufficient buyer competition. Pecan buyers identified two of the same problems among their three major marketing problems. Those two were: inadequate price premiums for high quality pecans; and inadequate market information. Since buyers and growers identified some of the same problems, and those problems can be lessened by electronic markets, further study is suggested.

Another agreement among buyers and sellers was who should sponsor an electronic market. Both groups favored an industry organization such as the Oklahoma Pecan Growers Association.

The Oklahoma Department of Agriculture, Oklahoma State University, Oklahoma Pecan Commission and the Oklahoma Pecan Growers Association are interested in jointly studying further the design and feasibility of an electronic market for pecans. All parties recognize that Oklahoma is not an island and other pecan producing states may also be interested in improved marketing and buying systems. Consequently, Oklahoma is assuming a leadership role in requesting funding from the Agricultural Marketing Service of the U.S. Department of Agriculture for a market research and development project.

Market research and development funds have been used before to study the design, feasibility, and pilot test of electronic markets. These projects have been joint efforts of the research and extension arms of our Land-Grant Universities (i.e.

the Agricultural Experiment Stations and State Cooperative Extension Services) in conjunction with State Departments of Agriculture and industry groups (both agricultural producers and agribusinesses). Such grants have resulted in development of on-going electronic markets. In cases where pilot tests were unsuccessful, such grants opened the door to learning more about these new marketing systems, e.g. the marketing conditions necessary for successful electronic markets, problems electronic markets can effectively address, and the how's and why's of organizing and operating them.

The use of public funds for exploring the opportunities offered by electronic markets has quickened the evolution to more efficient marketing systems in agriculture. Many commodity organizations are unable to underwrite the necessary financial commitment to such projects, e.g. the Oklahoma Pecan Growers Association, among others. Electronic markets benefit many buyers and many sellers so individual firms often are unwilling to invest capital into a project that may benefit others as well as themselves. Consequently, use of public monies seems appropriate. It is an investment in more efficient marketing systems for agricultural commodities and an economically healthier agricultural economy. Your continued support of public funding for agricultural research and extension work to improve agricultural marketing systems for all commodities is requested and appreciated.

ELECTRONIC MARKETING IN OKLAHOMA: EXPERIENCES AND OPPORTUNITIES

Electronic markets can: (1) expose farm products to several buyers; (2) facilitate competitive bidding among buyers; and (3) provide complete market information about each transaction between buyers and sellers. Farmers can use some electronic markets without leaving the farm.

This Extension Facts describes and gives examples of electronic markets in Oklahoma, discusses their benefits, mentions opportunities for other farm products, and outlines the necessary steps to start an electronic market.

WHAT IS ELECTRONIC MARKETING?

Electronic marketing involves marketing farm products with the aid of modern communications and computer technology. In some cases, this may be as simple as using a telephone. In other cases it may involve a complex computer and communications network.

Marketing (whether or not by electronic methods) involves two distinct functions. First is arriving at a sale price. Second is physically transferring the farm product from seller to buyer. Electronic marketing separates these often-combined functions. It creates a centralized electronic trading arena where all potential buyers and sellers can compete and finalize trades. And buyers, sellers, and the farm product need not be physically in the same place. Buyers and sellers may communicate with each other with telephones or computer terminals.

Farm products are sold based on a written or oral description, rather than a visual inspection by the buyer. Thus, an accurate and meaningful description of the farm product is necessary. Often, descriptions are by unbiased or impartial third parties to the transaction. Federal or state grades and standards can be used, but local or industry descriptions may also be used.

Farm products often remain on the farm until the sale arrangements are completed and the price established. Then the farm products are delivered from sellers to buyers. A market sponsor manages the necessary communications and assures an orderly and fair trading process. Electronic markets (like conventional marketing methods) must also accommodate title transfer, transportation needs, payment, and other details of the physical delivery of the products traded.

MARKETING PROBLEMS SOLVED BY ELECTRONIC MARKETS

Electronic markets have been found to help solve some of the agricultural marketing problems and concerns faced by producers, purchasers, and market agents. Thus, electronic markets can potentially benefit both buyers and sellers.

Marketing problems electronic markets can help solve include: (1) lack of accurate, complete, and timely market information; (2) inability of prices to reflect quality differences among farm products; (3) inability of prices to quickly and accurately reflect changing market conditions; (4) high costs of finding trading partners and completing transactions; (5) high costs of moving farm products from sellers to buyers; (6) sellers' inability to inform all buyers about farm products for sale; (7) buyers' inability to bid on available supplies of farm products from sellers; and (8) low sale prices resulting from inadequate competition.

Electronic markets cannot solve every marketing problem. They will not increase demand, find new product uses, create new buyers where only a few exist, or eliminate price volatility. Also, not all electronic markets have been successful. However, in many instances, electronic markets can improve the efficiency of marketing farm products.

ELECTRONIC MARKETS IN OKLAHOMA

There are four types of electronic markets operating in the U.S. Each of the four types can be found in Oklahoma.

Teleauctions

Telephone auctions (teleauctions) are auctions conducted over a conference telephone network. In Oklahoma, teleauctions are used for slaughter sheep and lambs (see OSU Extension Facts 456, Marketing Oklahoma Lambs by Teleauction).

Operating procedures of teleauctions vary according to the farm product and sponsoring group. In Oklahoma, lambs remain on the farm during the teleauction sale. For other livestock species (for example, feeder pigs in Missouri), the farm product is delivered to an assembly site before the sale. In both cases, a conference telephone hook-up is used for two-way communication between the auctioneer and buyers. Those buyers are usually in widely separated locations. For example, buyers of Oklahoma lambs are in Texas, Colorado, South Dakota, Iowa, Minnesota, and Michigan.

Each sale lot of lambs is described simultaneously to all buyers over the conference telephone. Buyers are told the number of lambs for sale, their sex, estimated weights and grades, location, and other pertinent information. Then, an auctioneer auctions the lambs over the telephone to the highest bidder. Sellers may specify a no-sale price which they do not convey to buyers. After the sale, lambs are delivered to an assembly site where lambs are sorted, weighed, commingled with lambs from several sellers, and shipped to buyers.

Teleauction marketing in Oklahoma began in 1979. In 1983, there were two sponsors of teleauctions in Oklahoma, Blackwell Livestock Sales and the Enid Livestock Market.

Video auctions

Video auctions are auction sales where buyers view video tapes of the farm product for sale, rather than physically seeing the farm product. Video auctions in Oklahoma were first held for breeding sheep but have been more frequent and more successful for feeder cattle (see OSU Extension Facts 463, Marketing Oklahoma Feeder Cattle by Video Auction).

Like teleauctions, operating procedures vary somewhat from one video auction to another. Video auctions require that a cameraman visit each ranch to tape the feeder cattle being offered for sale. On sale day, buyers assemble to view the video tapes of the lots being offered. Verbal descriptions of the cattle, including number for sale, sex, estimated weights, grades, and location are included on each tape. The seller also explains on the tape how his cattle will be delivered, such as loading and weighing arrangements, and other terms of trade. The auctioneer then auctions cattle to the highest bidder. After the sale, cattle are shipped directly from the seller's farm or ranch to the buyer.

Some video auctions, such as one in Oklahoma, have combined the video auction and teleauction concepts. Buyers in different locations simultaneously see the tapes of cattle for sale. Buyers at the auction site (for example, in Oklahoma City) bid in person, while buyers at outlying locations (for example, Amarillo, Texas and Sioux Center, Iowa) bid by conference telephone.

Video marketing of feeder cattle began in Oklahoma in 1980. The sponsor of the first video auction in Oklahoma, The Bob Jessup Video Livestock Auction, has continued sponsoring five video auctions each year since that time.

Computerized markets

Computerized markets use computers to receive, store, process, and send information about the farm product being offered for sale. Potential buyers have access to the descriptions of the products being offered for sale through a computer terminal. Computers are programmed to conduct the trading between buyers and sellers using an accepted pricing method such as auction, bids and offers, or private negotiation.

The first computerized market was developed by Plains Cotton Cooperative Association (PCCA) to serve cotton producers in Texas and Oklahoma in 1975. Since then, TELCOT has been the prototype for other computerized markets in the U.S.

A description of cotton offered for sale is entered into the computer, including number of bales, amount of cotton in the appropriate U.S. Department of Agriculture classes, and location of the cotton. Sellers can price cotton in different ways. They can let the market determine the price in a 15-minute open trading session where buyers can bid as many times as they want on each sale lot. They can put a price on their cotton and wait until a buyer matches that price. Or, they can forward price cotton.

Commodity Exchange Services (CXS) was started in 1978 and has since been an integral part of TELCOT. CXS is a privately-owned company extending the services of TELCOT to non-cooperative cotton gins in Texas and Oklahoma. PCCA and CXS, through TELCOT, market a significant proportion of the cotton grown in Texas and Oklahoma.

OK Sheep Expansion began marketing slaughter lambs by teleauction in 1979 but switched to computer marketing of slaughter sheep and lambs in 1982 (see OSU Extension Facts 460, Oklahoma Lamb Teleauction Update and Marketing by Computer). They market lambs through a computerized market operated by Equity Livestock Cooperative of Baraboo, Wisconsin and its subsidiary Corn-Belt Lamb Electronic Market.

Operating procedures for this computerized market are similar to those for teleauction marketing except for the following differences. Computer terminals link buyers with the sponsoring firm rather than a conference telephone network. Buyers also see a written description of the lambs for sale instead of hearing an oral description. Finally, the computer is programmed to conduct the auction rather than having an auctioneer conduct it.

Computer-assisted markets

Computer-assisted markets use a computer to list farm products for sale. However, prices are not discovered on the computerized system. A computer-assisted market for alfalfa hay was started in Oklahoma in 1983 (see OSU Extension Current Report 465, Haymarket: A Computerized Alfalfa Marketing System).

Sale lots of alfalfa hay are described and entered into a computer. Descriptions are based on a visual appraisal by a third party to the transaction (usually an IPM scout or county extension director). Also, a chemical analysis for protein and moisture is run on a hay sample collected by the third-party grader. Descriptions include number of tons available, location, color, maturity, and foreign matter, along with protein and moisture. Buyers may access the computer terminal directly and view a list of the sale lots offered. More commonly, buyers are mailed a printout of the listings. Then buyers contact the sellers directly and negotiate the sale price and other terms of the sale.

Haymarket was developed in Oklahoma in conjunction with the Oklahoma Alfalfa Hay and Seed Association.

BENEFITS OF ELECTRONIC MARKETS

Evaluations of several electronic markets reveal a number of rather consistent benefits for buyers and sellers. The importance of each benefit in any one electronic market will vary due to such factors as: farm product traded, market structure of buyers and sellers, and type of electronic market developed.

Improved market information

The availability of accurate, complete, and timely market information is important. It determines the speed and efficiency with which buyers and sellers are matched in the marketplace. For example, users of TELCOT (buyers and sellers) can view the most recent transactions throughout the day. Thus, they can watch as market conditions change, and then react accordingly.

Increased marketing efficiency

The costs of searching for trading partners, negotiating the transaction, assembling the farm product, and moving it from seller to buyer affects market efficiency. Electronic markets facilitate buyers and sellers learning of trading opportunities. For example, a dairy farmer in Ohio learned of an opportunity to buy hay in Oklahoma from Haymarket and then utilized a back-haul to ship the hay, thereby reducing his freight costs.

Direct selling costs for sheep producers in Oklahoma dropped when electronic markets were developed. Indirect costs can be reduced also. For example, many sellers lowered the cost of moving feeder cattle with video auctions by shipping them from their farm to the buyer, rather than taking them through an intermediate assembly site (like a public stockyards).

Buyers' costs can also be reduced. For example, feeder cattle buyers can view 3,000-6,000 cattle at one video auction without traveling to each of several ranches to see and bid on the cattle. Lambpackers buy lambs from Oklahoma without having a buyer in the state or without paying an order buyer to purchase lambs.

Greater pricing accuracy

Pricing accuracy is concerned with how quickly and accurately prices reflect true market values for farm products of varying quality. For example, TELCOT and Haymarket describe farm products by measurable quality characteristics. Thus, buyers can study price differences for various cotton classes or alfalfa hay protein levels and determine the value to them of the sale lot offered.

More effective and equitable market access

Electronic markets offer the potential to improve market access for buyers and sellers. Sellers gain by exposing their farm products to a larger number of potential buyers. They increase the chances of finding the right buyer, not just any buyer. For example, Haymarket sellers indicated getting more inquiries about their hay than ever before.

Buyers benefit by being able to select purchases from a broader array of sellers. Buyers increase the chances of finding the right quantity and quality of farm products that fit their needs. One example is packers buying lambs from Oklahoma. Before electronic markets, some distant packers never purchased Oklahoma lambs. Now they buy Oklahoma lambs when the lambs fit their needs.

Increased buyer competition

A major objective of electronic markets is to increase buyer competition for farm products. Centralized trading and exposing products to all available buyers accomplishes that objective. An OSU research project studied competition for slaughter lambs in an Oklahoma teleauction. It was found that each additional bidder during the first 34 months of the teleauction increased the sale price by $1.10 per hundredweight. In addition, it was found that lambs were sold to several more buyers and that sellers were receiving several additional bids on their lambs when lambs were sold by teleauction.

Higher prices

Perhaps the most widespread and consistent result of electronic markets is the positive effect they have on price. Nearly all electronic markets have resulted in higher sale prices. Prices increased by about $3 per hundredweight for Oklahoma lambs marketed through teleauctions. Prices for Oklahoma feeder cattle marketed through video auctions from 1980-83 were found to be about $.63 per hundredweight higher than comparable cattle marketed through a competitive market outlet. Some alfalfa hay growers sold hay through Haymarket for at least $5 per ton more than they thought they could.

Higher prices result from a combination of factors. Reduced buying costs and increased marketing efficiency mean buyers can pass back some of their savings to sellers. Greater exposure of farm products to several buyers enhances finding the right buyer. And competitive bidding allows prices to rise to the market-clearing level, ensuring that no buyer can purchase the sale lot at well-below the going market level.

OPPORTUNITIES FOR ELECTRONIC MARKETS IN OKLAHOMA

Currently, the extent of electronic marketing in Oklahoma and throughout the U.S. is small. But interest is growing.

Feeder pigs have been marketed successfully by teleauction in Missouri for two decades. There are also feeder pig teleauctions in other states, including Arkansas. In 1983, the National Live Stock Producers Association began a computerized market for slaughter hogs in the upper midwest. Video auctions for breeding cattle have been conducted in Iowa and other states.

Two firms in Texas are planning to commercially operate computerized markets in 1984. One will market all hays; and the other, feeder cattle. OSU is studying the feasibility of a Grain Electronic Market (GEM) for wheat, corn, and soybeans. Florida is studying the feasibility of electronic markets for fruits and vegetables. Interest has been expressed in Oklahoma for a study of electronic marketing of pecans and slaughter hogs.

One point deserves repeating. Not all electronic markets have been successful. And probably, not all will be in the future. Studies of successful and not-so-successful ventures have produced a list of steps to follow in starting an electronic market. How effectively an electronic market is designed and implemented will determine to a great extent its level of acceptance and thus the level of success achieved. Here are the nine steps.

1. Study strengths and weaknesses of the current marketing system. What are the concerns or problems with the current markets? Some concerns must have prompted an interest in electronic marketing. The objective of an electronic market is to increase marketing efficiency. Thus, we need to identify what the current markets are doing right and attempt to retain those features in any electronic market which is started. An electronic market designed to solve one marketing problem may differ from the design of another which is aimed at solving a different problem.

2. Determine how an electronic market may improve the marketing system for buyers and sellers. What weaknesses were identified from step 1 and how can electronic markets strengthen the marketing system?

3. Involve existing firms and institutions—or—if needed, form a new organization. This step really must be incorporated into steps 1 and 2. All persons in the marketing system need to be involved in identifying strengths and weaknesses and determining if electronic markets can solve their problems. Many of the people, firms, and institutions in the current marketing system will become a part of an electronic market, but some will not. Opposition may arise at this point. If industry groups will not work together, perhaps a new organization is needed. However, organizing an effective new group takes considerable time and effort. Thus, try to rely on existing groups if possible.

4. Determine how to describe the farm product to satisfy both buyers and sellers. Industry involvement at this stage is very important. If an electronic market cannot accurately and consistently describe the products to the mutual satisfaction of both buyers and sellers, the electronic market will fail. Explore official grades and standards, common industry terminology, or consider new approaches, including a combination of official and common terminology.

5. Study possible operational procedures and practices such as: (a) when title and product liability change; (b) what pricing method is preferred, (e.g. auction, bid-offer, or private negotiation); and (c) who will guarantee buyer and seller performance. How are these and other trading arrangements handled in the current marketing system? If current arrangements are satisfactory, can they be retained in an electronic market? Usually, a new marketing system will have a better chance for success if it differs as little as possible from current practices. Study the operational procedures and practices for other farm products and in other electronic markets.

6. Select the appropriate communications or computer equipment. Selection must be based on the objectives of the electronic market. Selection must also be based on the current and expected size of the electronic market. It may be useful to plan for growth but the growth estimate must be realistic. Over-estimating growth will result in a more costly system than is required. On the other hand, designing a system that will not accommodate realistic growth will not fulfill buyers' or sellers' needs in the future.

7. Estimate costs. Costs must be kept in mind at several points. It becomes especially important regarding how the farm product will be described, operational procedures selected, type of electronic market, and size of system selected. Experience has taught that some electronic markets were well-designed but the level of sophistication and the equipment needed resulted in an electronic market that was not cost effective.

8. Determine buyer and seller fees to meet costs. Costs must be estimated for various levels of use. Important questions must be answered. Who will pay for the services an electronic market will provide? Who pays for what services currently? Who will benefit and by how much from the proposed services offered? Thus, it is necessary to determine who should pay for which services and how much income could reasonably be expected. Then, it must be determined if those fees are sufficient at the minimum expected volume for the electronic market to be viable.

9. Educate buyers, sellers, and existing firms and institutions about the new marketing system. If industry groups have been involved throughout the development stage, part of the educational task will be completed. However, this step may be the most difficult. Industry leaders may accept the new marketing system, but you can expect opposition from others. Some people may be threatened. They may not see how they fit into the new way of doing business. Some people will resist any

change—just because it is different. Thus. expect opposition and prepare for it. Focus on the benefits and the positive experiences with other electronic markets. And those positive experiences are growing.

[The following material was submitted by Jim Ross, see p. 41 for his oral presentation:]

THE 1985 RESOLUTIONS OR POLICIES OF THE AMERICAN HONEY PRODUCERS ASSOCIATION, INC.

Members—Jim Smith, Arizona; Bob Strickler, Mississippi; Robert Brown, Kansas; Howard Taylor, S. Dakota; Bill Merritt, Florida; Bob Cary, Nebraska; Jerry Cole, New Mexico; and, Jack Meyer, Jr., S. Dakota.

Most of our members were fully advised about past policies and industry problems for the past few years. Some of these were discussed, but the committee as a whole were fully aware of the top priority items that need attention. The group unanimously agreed that price supports/imports continue to be the main topic of interest. Since our last convention tracheal mites have entered the country causing a great deal of trouble. And sometime in the future the Varroa mite will be found in this country. Unfortunately, our resolutions offer no quick fix for the mite problem. Instead we urge the industry to work closely with the government who are charged with the responsibility of administering the mite program.

We recommend that the Congress and/or the Administration give serious consideration:

1. A continuation of the honey loan program or enactment of legislation that would accomplish the same purpose.
2. The Office of the United States Trade Representative work to correct the inequities and violations on honey trading which exist among our most-favored-nation trading partners.
3. A program to distribute Commodity Credit Corporation's stocks of honey to the needy countries of Africa and Asia.
4. Imposition of duties and quotas that would allow domestic honey to be competitive in the open market.
5. The enforcement of the country of origin labeling regulation. We urge all beekeepers to monitor the honey on their local grocery shelves to determine if packers are complying and if necessary bring a civil suit against non-complying packers for damage to the industry.
6. That the Agricultural Research Service, USDA give mite research, both Tracheal and Varroa, a high priority designation and that they or the Congress approve adequate funding for these projects.
7. That the Environmental Protection Agency and affiliated agencies at the state level approve a minor use pesticide for the control of tracheal and varroa mites.
8. That beekeepers be indemnified for the cost ot restocking colonies de-populated in any eradication program for the control of tracheal and varroa mites.
9. That the Department of Agriculture's technical committee for mites be expanded to include more beekeepers.
10. Funding a full time Extension Apiarist at the Washington level.
11. Funding of a research project by the Agricultural Research Service, USDA, to determine the value of honey bee pollination to the environment.
12. That an expanded research project for pesticide be funded by the Agricultural Research Service.
13. A change in the ASCS regulations covering CCC takeover honey that would allow barrel liner chips from the barrel liner of honey drums.
14. That the Interagency Bee Protection Task Force work with the Environmental Protection Agency in the implementation of rules for special pesticide exemptions based on toxicity to honey bees.
15. That the Statistical Reporting Service be re-instated.
16. Enactment of legislation by the Congress that would exempt farmers (beekeepers) from the IRS ruling requiring detailed records of mileage, business and personal, on all cars and pickups if the expense of maintaining that vehicle will be claimed as a business deduction.
17. That research for wax moth control be continued and expanded.
18. That the "Killer Bee Countdown" film be withdrawn from distribution.
19. (See attached in-organizational resolution.)
20. We recommend that the Department of Agriculture discontinue the use of the term "killer bee".

21. That the American Honey Producers Association take a neutral position on the Honey Promotional Act, but urge members to participate in the referendum.

Adopted in meeting assembled in Biloxi, Mississippi, January 12, 1985.

Glenn Gibson, President, American Honey Producers Association, Inc., Minco, Oklahoma.

STATEMENT OF GEORGE W. WEYRICK, WEYRICK FARMS, DUKE, OK

Gentlemen, by your actions of being here today you show you are interested in the plight of American Agriculture. I wish to thank you for your interest, and to Senator Boren especially for chairing this official hearing.

My subject for today is: The Reagan Administration's War on Agriculture.

The time is now February 11, 1985. The war has been going on since January 20, 1981. A man named Ronald Reagan is in command of the final offensive to utterly destroy American Agriculture. He has three generals who are as dedicated to this task as he is: John Block, a double agent who is supposed to be working for the American Farmer, but who takes his orders from the man that has declared open season on everyone connected with agriculture.

Paul Volcker, a cigar smoking, arrogant man who through the use of exorbitantly high interest rates has almost singlehandedly won the war for the purpose of obliteration of the American farmer.

Last, but not least, David Stockman, hatchetman deluxe, who is his own mind knows more than the millions of American farmers that have provided food and clothing for this country for the last fifty years. A man who is determined to balance the budget down to the last farmer.

The final offensive is gathering speed. It looks as if the men just named will win, for their enemies are completely demoralized, out of money, and without hope. The country they have fed and clothed seems determined to obliterate every farm family from every farm in America.

What these four men have not realized is this: Even though they win, in the end result they, and the country they are supposed to be serving, will lose. Not only agriculture will be obliterated, but everything connected with it. Rural communities and towns. Small businesses serving agriculture.

All of the businesses in these towns such as banks, hardwares, grocery stores, mechanics, welders, painters, repairmen, clerks, in short everything connected with agribusiness will be as bankrupt as American Agriculture.

Now, since I can see no reason for the war, I would like to inquire as to the reason for it. Why the double standards we look at on every hand?

These questions I would like to address to Mr. Ronald Reagan, president of the United States.

1. Why can we not help American Agriculture when the United States can use Commodity Credit money to pay Poland's interest on the debt that is owed to American banks?

2. If it is good for the country to bail out Chrysler, then why not for American Agriculture—a business that affects directly and indirectly, over 27% of the American economy?

3. Why could we not afford to let New York City go bankrupt and yet say that it makes no difference to an industry that feeds and clothes everyone in the United States?

4. If the free market concept is so glorious, then let everyone share in the bonanza. Let's take all tariffs off every product. Let General Motors, Ford, John Deere, Tenneco—every business in on this great and wonderful concept. Everyone needs to be able to sell their product for ½ of the cost of production.

To Mr. Volcker I want to address these questions. We are told the salvations for all of agriculture's ills is a balanced budget. If the budget is balanced, the mighty U.S. dollar will weaken and farm products will be more competitively priced, so the story goes. Now for my questions—

1. In 1978, when the dollar was at a record low, why was our wheat essentially the same price as it is today with the dollar at a record high?

2. If we had a balanced budget, would the dollar not be worth more then than with a $200 billion budget deficit?

3. Why was it so important to bail out Continental of Illinois bank when Penn Square of Oklahoma City received no help?

Mr. Volcker, it is your stated belief that our economy can be controlled with interest rates. I can see three things very clearly that can be accomplished through the use of high interest rates.

1. The transfer of wealth from the middle class and poor to the rich.
2. The destruction of American Agriculture and small business.
3. The transfer of the assets of this great country to a small, but vicious and powerful land of international financiers masquerading under the title of the Federal Reserve System.

To Mr. Stockman, the budgetary wizard, I need the answer for this question.

Agriculture's share of the national budget is slightly over 2%. Why is agriculture asked to take over 10% of the proposed budget cuts?

The Defense Department's budget for travel and entertainment is over $9 billion. Yet we read that not one dime can be cut from this seemingly precious item. What is the difference in priority?

Gentlemen, I have asked these questions in hope that you come to two very important conclusions.

1. The "free market" concept is a cruel, total farce. The free market concept cannot work when there is no free market.
2. Until the Federal Reserve system is controlled, or hopefully abolished, there is no hope for economic equality for American Agriculture and small business.

Again, I wish to thank you for the opportunity of appearing at this hearing. It is my sincere hope that you gentlemen can make an important contribution in the writing of the 1985 farm bill My prayer is that the Lord will give you courage and wisdom in this task.

[From the April 29, 1982 issue of Southwest Farm Press]

IT'S TIME TO ADMIT WE WERE WRONG

(By Wm. S. McNamee, Publisher)

On page one of our issues that were distributed the first of January 1978 we ran a rather lengthy editorial entitled "Free Market, Love It Or Leave It." We will quote only two paragraphs of that editorial which ran to some 800 words. They are: "They (American farmers) cannot do it. They cannot buy inputs on a fixed or steadily rising market and sell their crops on a continuously fluctuating and totally undependable world market. We need wait no longer, the handwriting is on the wall."

The second paragraph, which we quote: "If this only serves to pique your interest, if it flies in the face of a great deal that you believe to the contrary, we will only say. . . . 'Cut this editorial out and save it. It may look better and better.' " End quotes.

If American agriculture is to survive it must face up to some hard facts and completely abandon some highly cherished and long held beliefs: (1) That a "free agricultural market" works better than a controlled one. False. (2) That we must get the government out of agriculture. False. (3) That "market oriented" philosophies must be pushed and that they will make things better for the farmers and for all who depend upon their success for their own. False. (4) We're feeding a hungry world. False. The vast overwhelming proportion of what we sell overseas isn't going to the hungry, it's going to Japan, China, Russia, the Common Market nations and others with the money to pay, not the starving millions in the barrios outside of Mexico City and Caracas and Africa and Southeast Asia. If our nation wants to feed a hungry world or help on the balance of payments or if it wants to punish Russia, let the nation as a whole as represented by the federal government share in the cost equally. Why should 750,000 farmers who produce 98 percent of America's crops bear the burden alone and go broke in the process dragging at least 35 million other people, and probably the whole nation, behind them?

The foregoing are just a few of the currently held ideas that must be abandoned. These ideas are not just held by Congress or by the present Administration or by the previous Administration. They are held by the large majority of our farm organizations. They are held by our thinkers and by our economists. Please read the following sentence carefully:

Nothing is going to get better for the American farmer on a permanent or dependable basis until he abandons the free market concept and goes back to a sufficiently high federal government support program that will make it possible for him to be assured of a profit if he makes a good crop.

This probably will mean acreage controls on major crops and it will mean a greatly reduced emphasis on the export market. Who cares about exports if the individual farmer cannot make a profit on them? I'll tell you who cares. . . . That tiny minority of people who have already gotten rich beyond their wildest dreams buying commodities from American farmer and selling them overseas at a profit. It is not a high priority to these middlemen that the American farmer makes a profit. It is of top priority, naturally, that they make a profit.

Labor unions have considerable control over what they receive for the fruits of their work through the power of collective bargaining. Industry has considerable control over what it receives for the fruits of its labors through behind the scenes price fixing agreements, the ability to shut down its factories, and the ability thereby to tremendously reduce its cost of production.

Only the farmer, we repeat, only the farmer, has no choice, and no control.

He must continue to produce, he must pay the prices demanded for his inputs, and he then must sell for what the free and constantly fluctuating market will let him have.

That we should have to learn this lesson all over again after having learned it in the hardest possible way in the Great Depression is mind boggling. We had nothing else but a "free market" until legislation was passed in 1933 to bring stability and prosperity back to American farmers. It had not worked (the free market), we had a constant boom and bust farm economy and, beginning in 1921, a serious farm depression that contributed heavily to dragging the entire nation into the most serious depression in history beginning in 1929.

For 40 years, we repeat because it is of enormous importance, we had 40 years of high and strong federal government farm support programs from 1933 to 1973. In 1973 we made a serious wrong turn. We passed a new farm law that forced the farmer to depend primarily upon the free market for his profit and it was based primarily upon the assumption that the export market would provide us with some sort of OPEC cartel on food that would allow us to dictate prices for our farm produce, solve what few problems were inherent in farming under a government program, and allow us to grow fence row to fence row on all crops as we saw fit. Utopia. In 1974 and 1975 our long time friends and buddies the Russians bought every bushel of grain we had, our cotton crops were disasters and farm prices shot up. It works! It works! The millennium is here! For two years on sheer coincidences. Since then it has been steadily down hill. Oh sure, some people have made some money some years. All you have to do is make a good crop during a year when everybody else makes a bad one. All our farmers know that if you're smart you know how to do that. . . .

But leaving the sarcasm of the last two sentences behind, it has now been 9 years. We have re-passed essentially the same farm law twice more since 1973, in 1977 and lately in 1981. Nine years of a disastrous test has surely proven to the majority of U.S. farmers that the free market concept simply doesn't work.

The nation's agriculture is hovering on the brink of total collapse, agribusiness will go down with it, small towns, small businesses, dealers, distributors, 35 million people directly or indirectly drawing their livelihood from it will go with it, and perhaps, as in 1929, the whole nation. At the very least a prosperous U.S. agriculture and agribusiness would provide an increased tax base that would help with the hemorrhaging budget deficit. A strong, federal supported farm program would probably pay rather than cost and in several ways.

Fully agreed, now and at the time, the Carter embargo was a stupid and devastating mistake. So was the one applied by Ford, the one applied by Nixon and the one threatened by Reagan that hangs over the market like a sword. But all of that and the crop in Brazil and the crop in Argentina and the crop in Canada and the crop in Australia and the crop in China and the manipulations of middlemen and the emergence of many, many strong agricultural economies yet to come, and even the increase in our own production expertise make the dependence of our farmers on the free market a bad joke.

We will cover now the main arguments for sticking with the highly touted "market oriented approach" which many do against the day "when our ship will come in and we will reach at last the pot of gold at the end of the rainbow."

(1) That we don't really have a free market anyway, that the government keeps poking its nose into the situation via embargoes so that we never really get to find out if it will work.

Answer. They are not going to stop doing this. A grain embargo is about the only way, short of a nuclear war, that we have any hope of hurting the Russians and accomplishing certain other international goals and you can just count on government interference with the international farm market. And beyond this during the nine years of free market farm programs there have been very long stretches of time when we had no embargoes, but other factors affected the world market price.

Of course other countries are going to compete with us for foreign agricultural markets and when they do it's going to lower the price our farmers are able to receive. Anytime there is substantial money to be made we are naive to believe that we are the only ones smart enough to see the opportunity and go for it. The international export market, even the "free" domestic market for agricultural products is volatile and undependable and no other major country in the world insists that its individual farmers try to handle it alone without government help. So to those of you who say "we don't really have a free market" we can only say. . . . "Do you want to take another 12 years to prove to yourselves that we're wrong about that, too?"

(2) That to return to a high government support program is a step backward.

Answer. Hogwash. Of course you can go back. What do you do when you drive 100 miles in the wrong direction in your automobile because you took a wrong turn 100 miles back? You curse a lot, but you retrace your path, take the opposite turn and try to put the mistake out of your mind. Have you ever done that?

(3) That there might not be a place in a high government support program for quite a few businessmen, commodity brokers, shippers, commodity exchanges, international grain companies and others.

Answer. It's time to start throwing people out of the lifeboat. American agriculture starts and ends with farmers. That's spelled f-a-r-m-e-r-s. Everybody else has just got to find themselves a place. If American agriculture goes down everybody connected with it goes down too. The situation that exists now in American agriculture is deadly, perhaps, fatally, serious. Priorities must be established. If you don't want to go bankrupt or have to stop farming when you don't want to stop farming you may very well have to decide whom you like the best. . . . yourself and your family or some farm commodity trading sharpie.

This may sound tough, but we're tired of farmers telling us and each other that there just doesn't seem to be any way out. There is a way out, there probably are several ways out, but they all call for strong federal government coordinated farm programs. During the 40 years of relative stability the American farmer had between 1933 and 1973 the 90 percent of parity loan program seemed to work the best for the longest. There were other variations, of course.

It was not an expensive program and it worked very well until Ezra Taft Benson, secretary of agriculture under Eisenhower, sabotaged it in about six different ways including a refusal to sell our surplus farm commodities overseas causing huge accumulations which were widely reported as "overhanging" and "depressing" the market. But this wasn't actually causing the farmer any great grief. He had his loan program and if Benson wanted the government farm program screwed up it was up to the farmers, their farm organizations, Congress and the administration to stop him. They didn't. After that we began to move into direct payments, then limitations on payments, great predictable public outcry and, finally, the move in 1973 into the "free market." If you want to know how we got into this mess that is how.

We are not married to a 90 percent of parity CCC loan concept. It does seem to us that, properly managed, this is a good and proven approach which would allow us to decide how much of each crop we needed for both domestic and export markets and set allotments, yes allotments, to fine tune the amount we want to produce. If the government wants to go after the lion's share of the world export market fine, increase the allotments, and our farmers will be glad to grow the extra crops. Just as long as they have the security of being able to sell them at a high, supported, profitable rate. We might not be able to grow quite as much of certain crops but at least we'd make a profit on what we did grow if we made a good crop. We have got to get our farmers back on a sound financial basis. It is imperative.

Under this approach we would put our crops in the CCC loan if the price at harvest time was too low to provide a profit, and at a low interest rate of 6 percent or less and leave them there until the price went up. If the price went up we'd take them out and sell them at a profit. If the price for commodities still did not go up, after, say, 12 to 18 months off the market, we'd let the government have the collateral crops to sell for what it could get overseas in order to cut its losses, feed the hungry world, punish the Russians, do whatever it felt best for the general welfare, as American farmers would be adequately protected. During the many years that we used this approach the government actually made money on the deal much of the time. They still do on the tobacco program.

As we said earlier we are not married to a 90 percent of parity program. If some bright, young sport has a better idea that will work and provide American farmers with a stable, adequately high, government backed market for their commodities, our minds are open. But no dependably successful program will hinge on the free market or on the export market.

You see what we've done here is give ourselves two vast imponderables instead of one. One we're probably going to have always. That is the weather and other acts of God. We've always had that, but now we have added another, the fluctuating market. So that now even if we are lucky enough and skillful enough to produce a good crop the bottom can fall out of the market and we still lose money. This happened most recently in 1981.

The added imponderable is placing so much additional weight on farmers that we now read that certain companies are holding clinics to help farmers cope mentally and physically with the added stress. And everybody these days knows what heavy added stress does to the human body. It causes high blood pressure, stroke, heart attacks and a variety of other physical ailments. Is "getting the government out of agriculture" worth that much to you, and your family, my friend?

(4) That we must export. That without exports farm prices would be even lower than they are. This second sentence is very true, without exports prices would be lower still.

But that is assuming the existence of the present farm program which is based almost entirely for its success on an ever increasing volume of exports. This program would be removed and replaced with the one discussed under which exports would be of no importance. The present program sounds like a good idea, but it isn't working and will never work dependably.

(5) That a program of this nature would drive up prices at grocery and other consumer levels causing great howls of public discontent.

Answer: Consumer outlets, including the big, monopolistic grocery chains, are going to go up on their prices as much as the traffic will bear anyway. All polls show that consumers do not blame farmers for high grocery prices and do indeed understand what a small portion of prices for farm products go to farmers anyhow. Grocery prices go down very, very little when farm prices go down and continue to go up generally no matter what farm prices do. This is just a slick argument used by free market advocates to cover their real motives. And, besides that, how many prices have you been able to drive down lately by complaining?

You can argue with the foregoing until you are blue in the face. But you've got to argue with the full knowledge that we had 40 years of stable agricultural marketing conditions from 1933 to 1973 and then 12 years of roller coaster, who's going broke next, from 1973 to 1985. If you disagree with what we've said here, and plenty will, you've got to crawl over that hump first.

Many, many items including deficiency payments, heavy dependence and the FmHA, and others could be eliminated and simplicity would become the order of the day.

Things are bad and getting worse year by year.

It doesn't have to be this way.

STATEMENT OF EARL KARDOKUS, LOOKEBA, OK

I would like to focus my testimony on the parts of the present Farm Law that is working.

One of the programs of the present Farm Law that is working is the Peanut Law.

(1) The present Peanut Law can be operated with little cost to the Federal Government.

(2) Exports of peanuts have increased under the present law, while exports of other crop have been dropping.

(3) The consumers have been supplied with a dependable supply of peanuts at a reasonable cost.

(4) The producers (farmers) have been able to build equity in land, allotments and equipment, finance production cost, pay taxes, and make a profit.

Under the present Farm Law for Wheat, Cotton, and Grains:

(1) None of the programs can be operated at a low cost to the Federal Government.

(2) Exports of all these crops have decreased.

(3) The consumers will not be supplied with a dependable supply when farmers are bankrupt.

(4) The farmers are losing equity in land and equipment, are not paying very much Income Tax, and are making very little profits.

I understand that the Federal Government is looking for ways to cut the cost of Farm Programs. We have a Peanut Program that can executed with little cost. It is necessary to have Local, State and Federal Administrators to administer the other Farms Laws. We can use them to administrate the Peanut Law. And we can write a Peanut Law that can be executed without any loss to the Federal Government!

Why miss the opportunity to have a working program for Peanuts, just because of a Political Philosophy of Open-end Production and depressed prices in order to decrease Manufactures cost and increase exported poundages?

(1) Will it do us any good to export commodities under the cost of production and bankrupt our producers?

(2) Will the consumers have cheap peanuts if the industry is bankrupt?

(3) Can we balance the Federal Budget, if farmers are no longer paying Income Tax. Farmers won't pay Income Tax without profits?

(4) Can we write a better program then the one we have for peanuts? We aren't subsidizing farmers; we are building Security and Insurance for Land, Allotment and Equipment Investments!

(5) Will the Cities welcome Bankrupt Farmers, and other rural people that will be forced out of rural areas to our cities seeking employment? Or do they have enough unemployment?

(6) Can we balance the Federal Budget and at the same time lose Billions in Secured F.H.A. loans? Peanut farmers will go bankrupt without some kind of production control law for peanuts.

Let us keep Agriculture Healthy, wheat, cotton, grain, whatever. Agriculture is a building block for our economy, a foundation for many other industries. If we destroy Agriculture we destroy our entire economy by the Domino Effect.

President Reagan proposes to have a strong National Defense. Will it do us any good to Finance Weapons of War, and have a Wrecked-Depressed-Economy? I would maintain that the best defense that our country can have is a strong economy; with a strong economy we can build defense, share with other less fortunate countries, and illustrate the benefits of a Democracy. Will bankrupt farmers build national economy? Will depressions build national defense? Can we write a better peanut program? Let us take what is working in our present peanut program, and edit the things that need to be corrected or changed.

Please don't do with peanuts what has been done to wheat, grain, and other commodities.

Remember you can't store peanut surpluses; peanuts are like fruits, potatoes, and other parishable commodities. You have great expense and spoilage in storage, and if you have to dump surpluses you have great financial loses.

Thank you for the opportunity to address this hearing. Thank you Senator Boren for setting up this hearing and for your time.

FEBRUARY 11, 1985.

Senator DAVID BOREN,
U.S. Senate,
Washington, DC.

DEAR SENATOR BOREN: The undersigned, John J. Christensen, LTC USA (ret.), 510 N. Caddo Street, Weatherford, Oklahoma 73096, grew up on a farm in Custer County, served in the US Army from 23 September 1943 to 1 June 1972 in a number of military intelligence assignments. Since 1972 I have been farming near Thomas, Oklahoma, and have participated in the Farm Program each year. During this period I have been a nearly daily visitor at Christensen Implement Co. and the South Canadian Cooperative at Thomas. I believe my observations and comments represent a consensus of many farmers' opinions concerning farming, finance, government programs and other related subjects.

There seem to be three alternative courses to consider in the approach to a new farm law, as follows:

a. Eliminate all government farm programs (including ASCS, SCS, FmHA, Farm Credit Administration, Extension Services, and any others entrenched since 1945.) and allow farming and ranching to be completely free enterprises, depending on a free market place.

b. Continue the present programs with some variations and innovations.

c. Establish commodity marketing orders for the sale of primary farm commodities, with a two-tiered price basis, one for exports and one for domestic consumption.

There is considerable consensus for alternative a. A simple overview of the 50 year cause and effects of the federal farm programs indicate their dismal failure to achieve stated objectives over the years. Family farms are a near relic of the nostalgic past. The Farm Credit Administration allegedly stated in a year 2000 projection study that farming will then have become large corporate structures held by absentee owners. A preemptory elimination of all these programs would greatly please the President and David Stockman. The interfaces between citizen farmers and the

Chief Executive's agents at these agencies is a legendary source of frictions. County level committees in my opinion and experience are sterile rubber stamps for the county administrator. Few farmers avail themselves of the Extension Services, and statistical and marketing forecasts mimic USDA projections which have about a 50 percent level of accuracy, and are widely suspected by farmers of serving market manipulative purposes.

The primary advantage of the free market alternative would be to precipitate a unification of farmers and agricultural organizations toward goals necessary for survival. History has proved that social, economic and religious reforms have usually been achieved by violence. Recently I heard a peaceful farmer say "burn them out if they do not comply". Another farmer with WWII engineer sapper experience suggested to me one day that if things get much worse he was going to remember his previous military skills a little better. Just as the international war is simmering at the terrorism level, the level of vandalism and pilfering in Custer County has caused farmers to discuss rules of citizens arrest, rules of posse-comitatus, and general vigilante use of the rifles and shot guns carried in the rear windows of farm pickups.

Perhaps a better result would be achieved by a partnership of farmers and labor to consolidate collective bargaining objectives. Cheap food and under or unemployment do not currently get fair credit for containing inflation. Many farmers are already employed in the off-farm labor force, and as truck drivers to maintain a subsistence. A coalition of agricultural organizations, the Teamsters Union and longshoremens unions is a logical marriage for survival in the present market place. To a student of 20th century revolutions, this scenario is familiar. The difference is hopefully that their non-violent coalition be accomplished by democratic processes in a capitalistic free market atmosphere.

Upon putting the above discussion into writing, I have realized that there is no free market under the present and the foreseeable future federal government political and economic policies for trade. Furthermore, the civil servant bureaucracy in these agricultural agencies are strongly entrenched and cannot easily be eliminated by pen or law. Most likely farmers will not join labor partnerships until they become laborers on the absentee corporate farms touted by a federal agency. Therefore, in spite of public utterances about the free market, I doubt that the Senate Agriculture Committee would approve this alternative, but I hope these observations may be read into the mind of each member.

Concerning the continuations of the present programs with variations and innovations, the following discussion is limited to wheat production and marketing. Inasmuch as a general consensus indicates that the new farm law will follow the old pattern, the following recommendations are suggested without lengthy discussion.

a. That the wheat program be implemented to recognize the five major types of wheat grown in the United States (hard winter, soft winter, hard spring, white wheats, and duram). The climatic, economic and market variations for each of these wheats make it ironic that the same production and marketing rules be applied evenly to all of them.

b. That compliance with the production and marketing rules be mandatory, and enforced by law. It is generally believed that noncompliance by large commercial farms has been a primary deterrent to achieving supply control at the expense of the family farmer.

c. That rules be implemented requiring at least one-half of set-aside acres to be planted to legume crops to be plowed under as manure, and be rotated onto different land at least after two successive years.

d. That local warehouses receiving wheat from farmers be required to clean wheat to bring grades up to exporting and milling requirements. Cleanings could either be returned to farmers for livestock feeding or segregated for commercial feed. Reasonable compensation for cleaning service would be expected.

Better country elevators are providing this service. However, the name of the game by many grain merchants is to dock the farmer as much as is tolerated, and ship as much trash as can be blended and graded.

e. That a two-tiered pricing system for exports and domestic consumption be studied. Study of the Kansas City 2:00 PM carlot auction bids and daily Kansas City Board and Gulf Basis bids indicate a tiered pricing system is now in effect, however to the detriment of the producer.

Alternative c is believed to meet with more acceptance by farmers than trade and farm journals indicate. The general farmer comment is that the government should either run the market, or quit meddling in it. I have talked to many Canadian farmer-custom combine operaters, and have yet to hear criticism of the Canadian Wheat Board. It is called effective supply management and marketing from a single point. A farmer could much better plan a diversified farm operation if he knew his marketing quota and price qūota prior to planting wheat. I believe this program should receive the expert consideration of the Senate Agriculture Committee in conjunction with an improved pricing system.

Farm finance would not be the problem it is if previous laws would have changed with world conditions. There is not much on subject that has not already been said. An effective new farm program will probably be too late for many farmers, agribusinesses and rural banks. The move to absentee corporate farms is well into gestation. The difference between corporate farm and the collective farm is a semantic difference. The latter has failed in the two largest countries of the world. The husbandryman traditionally does a better job with his own entrepreneurship. This may be the key to the supply management problem. But the farmer should be left a small piece of land, or private plot, to supplement his family fare, and to barter for tobacco and necessities.

Respectfully,

JOHN J. CHRISTENSEN.

HENRY BELLMON,
Red Rock, OK, January 11, 1985.

Hon. GEORGE BUSH,
The Vice President,
The White House,
Washington, DC.

DEAR MR. VICE PRESIDENT: This letter is a follow-up to our conversation in your office last month regarding ideas for the Administration's 1985 Farm Bill. Since I had a direct involvement in developing much of the current farm legislation, my position may be somewhat biased. My feeling is that the present farm legislation, if administered in a timely fashion, could be effective in matching food supply and demand at modest cost to the Treasury. The law provides great flexibility to the Secretary of Agriculture. It allows market forces to operate by paying a direct subsidy if target prices are not realized.

The following are suggested additions or refinements to the present program:

(1) Aggressive leadership by the Administration needs to be taken to secure the cooperation of other grain exporting nations in restraining over-production. This may be difficult to accomplish since the U.S. has currently undertaken to do the job alone. There was a time in the late 1970's when Canada, Australia, and Argentina expressed a willingness to cooperate. I believe this attitude would return if U.S. commodity loan levels were reduced significantly.

(2) There are a significant number of farmers who would elect to retire their entire farming operation for an extended period of years if given an opportunity. I would suggest that the new farm bill include the option for farmers to idle entire farms for a five or ten year period on the basis of lowest per acre bids by county. This would tend to remove the most fragile, erodible land from production and protect it from the elements. An additional option might be offered to compensate land owners for opening their property to public access in appropriate areas.

(3) A "fragile" land retirement program to attract portions of farm units on a bid basis could be included. Again, the public use option should be considered.

(4) Certain aquifers are being depleted more rapidly than the recharge rate (the Ogallala area of Texas, New Mexico, Oklahoma, Kansas, Colorado, Wyoming and Nebraska is a case in point). These waters are being "mined" to produce grain which is not needed and often at a loss to farmers. The new farm bill should include the opportunity for irrigators to lease their water rights to the government and cease irrigation for an extended period of years. The program could allow dry land farming on leased areas or provide additional compensation for those who took their land completely out of production. Operation of farms as dry land would reduce damage to local economies. A limit of 25-50 percent of the irrigated land should be allowed to participate in any one county.

(5) The current target price and farmer owned grain reserve provisions appear to be working moderately well, and I believe they should be retained. As stated, I believe crop loan rates should be reduced to levels which are not an incentive to foreign competition.

(6) The USDA needs to focus its resources more fully on foreign market development. This could be accomplished by converting the agricultural attache service into the "Foreign Agricultural Trade Service" and instructing this organization to work closely with private agricultural exporters in foreign market development.

The farm situation is approaching a point of catastrophe for many competent and efficient operators. While I realize there is great pressure on the Administration to reduce federal spending, the sudden withdrawal of federal commodity price support programs will produce such intense hardship in rural areas that the ultimate costs to the U. S. Treasury will be multiplied. In addition, the nation's food supply will be endangered if rural economics deteriorate further. I feel strongly that the Administration should and can avoid this calamity.

Sincerely,

Henry Bellmon.

Two additional ideas may be worthy of consideration:

(1) In cases where the Farmers Home Administration takes title to land, those acres should be retired from production rather than leased to other farmers.

(2) The new farm bill might include a provision to allow the Secretary of Agriculture to make interest payments on farm land mortgages which are in arrears and threatened with foreclosure. This land could be retired from production for a period of five years at which time the owners could be given the option of resuming interest payments and putting the land back into cultivation.

The above provisions might need to be restricted to commodities which are in surplus.

February 7, 1985.

Senator David Boren,
Russell Senate Office Building,
Washington, DC.

Dear Senator: What did you have for dinner last night and for breakfast this morning? Well,—I can assure that the American farmer who raised the beef, poultry or pork, the grain for bread, cereal or flour or barley for beer, the American farmer who raised the fruit or vegetables or eggs, milk, butter did not receive a fair price for his product. A product that was born from a gamble, a gamble for decent weather, a gamble against insects, fire and vandalism, but never a gamble for a decent price, that is understandably in the hands of the stock market money people who control us like puppets that we are playing our hearts and minds under their greedy control.

We need fair prices. Everything in the farming industry has risen in cost for over 15 years. Fuel fertilizer equipment interest rates stamps for this letter, are you still there? Easy credit is not the answer, that was tried, the big boys borrowed the money, bought farms in other people's names and then claimed bankruptcy. We think that should be paid back to the taxpayers.

In short, what we need is a raise, we are not making minimum hours wages. In an economic environment where everyone at the top of the food chain pyramid has received higher prices for the products made from the produce of the farm, it seems unfair to let the foundation of the pyramid crumble and fall. As more and more farmers and ranchers are brought to their knees under these ridiculous economic conditions, the very roots of America are dying away. America and the world needs the farmer. Let us make hay out of the diverted acres, our money went into the seed, fertilizer and labor. Take off our chains. Time is of the essence. It takes nine months to raise wheat to production, nine months to put a calve on the ground, a year to raise to go to feedlot and when are we to receive our pay for hours invested? We don't because about the time to sell the stock market has us timed in their graphs to make the market fall again. Take us out of the stock exchange. We mean it. Put a chain on the stock exchange and let a task force of farmers do it.

Sincerely,

Ray Schidler.

STATEMENT OF DOYLE WILLIAMS, FREDERICK, OK

I am Doyle Williams from Route 4, Frederick, Oklahoma and I am a Director of the Federal Land Bank Association of Altus, Oklahoma. The association serves 6 counties in Southwest Oklahoma, being, Tillman, Jackson, Kiowa, Harmon, Greer and Cotton. The association has approximately 1800 loans representing approximately 1450 member-stockholders. At the present time, approximately 8% of our loans are delinquent, however, the association has approximately 600 loans which will become due in January and February. It is our opinion that these stockholder-members will have difficulties meeting these installments due to the drought conditions during the summer of 1984 and an early frost which occurred in late September which has resulted in low yield and grade of cotton production which is the primary source of income for the installments which are due in January and February.

At the present time we have identified approximately 15% of our members are experiencing financial difficulties, many of which we would classify as very good operators. The association has 30 loans in foreclosure as of January 1, 1985 and has 4 acquired properties in inventory.

The conditions which have caused financial difficulties have also had a disastrous impact on land prices and equipment. Thus making it very difficult for operators in trouble to liquidate assets due to the low demand for farm land and equipment.

I would say that the general condition of agriculture in Southwest Oklahoma would be very serious and if we do not do something in the future to improve the financial condition of farmers and ranchers, it is my opinion that their condition will continue to deteriorate and many will be forced out of business.

STATEMENT OF RICHARD C. ALDRIDGE, MANCHESTER, OK

The following are a few suggestions I feel are extremely important for the success of a farm program in 1985, or beyond.

1. The program must be mandatory for all farmers, which must be enforced without exception.
2. The government must guarantee that there will be no embargoes.
3. A 40 percent reduction of acres in production, of this 40 percent reduction, the farmer would reduce 20 percent without compensation, the other 20 percent would be government supported.
4. Government must make every effort to return the balance of trade to the plus side. A level which was attained in the mid 1970's through the export of agricultural products.
5. Lower interest rates across the board for agriculture for as long as five years.
6. A moratorium debt for a given period of time.
7. A moratorium on interest for a given period of time. If however, a payment on a loan is made, it will be applied to principle.
8. Release more money from the Federal Reserve or some other action that will lower the value of the American dollar to put it more in line with other currencies of the world.

No matter what type of program is implemented in 1985 or beyond, a remedy for the financial crisis faced by agriculture today must be found.

A moratorium on debt and interest is a realistic approach to the crisis.

If nothing else, a moratorium on interest for a period of twelve to eighteen months would have an immediate, positive effect on the agricultural community. In conjunction with such a moratorium, a farmer would make payments, if possible, on debt, however these payments would be applied to principle. By so doing, even if interest rates remain where they are today, it would lessen the amount of interest paid by farmers in the future and therefore relieve some of the financial burden on farmers today.

I am sure the financial community will not view this approach as realistic. However, what is the alternative?

If banks continue, to foreclose, who will be able to financially absorb the farms?

In many cases, banking institutions will only be able to regain fifty cents on the dollar or worse. However, if a moratorium on interest was implemented, the banking community may be able to turn farmers who are on shaky financial ground into viable customers again.

I urge you to please consider these approaches.

I would appreciate the opportunity to discuss with you in the future these and other matters of importance.

STATEMENT OF DELBERT E. BERRY, BLUEJACKET, OK

Members of Congress, Members of agriculture and all Americans: We in agriculture need proper and sincere help from Washington and all Americans. We have worked together to build the greatest agriculture ever in all the world. Now the economy threatens to totally destroy and discredit the American farmer. This economic mess is not our doing. The financial position we are in was created in Washington by embargoes and underestimating the productive capacity of our farmers. We not only need to know what we are to produce but where we are selling it. I believe there are answers to the problems of agriculture if we are sincere in finding them. We cannot continue to lose our best producers.

First, put a moratorium on all involuntary transfer of or foreclosure of agriculture property until time is sufficient for new programs to work and operating funds are generated. When moratorium is lifted reschedule payments and adjust interest to cash flow with leeway for bad years.

Second, set target prices for that percentage of commodity produced for domestic use at 100% of parity.

Third, replace acreage allotments with domestic bushels or CWT allotments. Issue certificates entitling a farmer to produce a specific number of units of his commodity.

The number of certificates issued nationwide would represent the national requirement for that commodity.

Fourth, government would issue target deficiency checks on these certificates in much the same way as they now do.

Fifth, producer would be allowed to produce for world market at his own risk.

Sixth, to pay for this program put a sales tax on the finished product. The only exemption from this tax would be food stamp recipients.

I believe this would be a just and fair program. It only asks Americans (the best fed people in the world) to pay the producer a fair wage and return on investment. It does not ask them to subsidize us to produce for world trade. This would keep our good producers producing. This would allow a farmer to concentrate on his best acres and assure him a profit or if he saw world price would support it he could farm all his land. This program would increase farm income dramatically and not add to overall inflation as the middle man would be dealing from normal market pressure and not affected from the 100% of parity.

This program would allow our better producers to produce for world trade and continue to make a strong show in the balance of trade. This program will save our family farm. Put a little money in our farmers pockets and watch our economy grow.

STATEMENT OF ROY BOATNER DURANT, AN OKLAHOMA STATE SENATOR

Mr. Chairman. Members of the Committee. Thank you for this opportunity to meet with you.

Agriculture in Oklahoma today faces a peril as great as it did in the 1930's. The cloud that blots out the sun on our farms today is not one of dust, but one of national and international economics. But it is just as deadly. It is worse than drought or flood. It is worse than a hailstorm or disease.

It is not far from correct to say that the economy of Oklahoma relies as much on agriculture as the economy of the District of Columbia relies on the federal government. When Oklahoma farmers are in trouble, Oklahoma retailers are in trouble. When farm income is down, the state treasury is down. When farmers go under, banks go under. We have all of those problems in Oklahoma today.

If we are to solve the problems, our solutions must be both immediate and long-term.

Let us turn first to the immediate crisis. We need fast, strong action to get through 1985. I propose a two-step approach.

First, we must pass an Agriculture Emergency Credit Act. There should be two targets for the act. We must declare a moratorium on foreclosures of agriculture-related loans by FmHA, FCA, commercial institutions and others. At the same time, we must provide all lenders with the opportunity to make emergency low-cost short-term loans to assist farmers through 1985 and to buy time for a planned reorganization by borrowers.

Second, we must establish target prices for 1985 at not less than 1984 production costs.

If we do those two things—prevent unwarranted foreclosures and provide emergency financial aid and set prices at a break-even level—farmers may be able to make it through the year.

Now, let us turn to a longer term solution to the problem.

We must restructure our whole policy toward financing of agriculture. We recommend a 90 percent unconditional loan guarantee to qualified participating institutions. We must eliminate the strings that now are attached to agricultural loans that are not attached to other types of business loans. We further recommend that loan application be answered within 60 days and that approval be based upon 100 percent of cash flow, not 110 percent. Finally, we recommend that loans classification be based on collateral, equity buildup and market value, not on cash flow and production estimates.

As we restructure our loan policies for agriculture, we must at the same time rethink our marketing approach.

We must develop a marketing strategy to sustain market support price levels through a balance of import and export duties and tariff reciprocity.

In short, we must abandon our outdated agricultural marketing policies that reflected a relatively closed national economy. We must recognize that today's market for virtually all products is an international market. We must make America's agricultural products a vital component of that international market.

It has been said that the only thing more expensive than education is ignorance.

I submit to you today, members of the Committee, that the question before the Congress is not what it will cost to save agriculture.

The question before you today is: What will be the cost to this nation without agriculture?

McClain County National Bank,
Purcell, OK, February 7, 1985.

Senator David Boren,
Oklahoma City, OK.

Dear Senator Boren: I am writing in response to your hearing on Oklahoma agriculture problems. It is my belief that this country cannot survive without agriculture; and mostly agriculture in its present form. I am referring to family type farms and ranches and free enterprise. If the U.S. gets to the point that we cannot feed our Nation and have a surplus to sell, then we are in trouble. I would hate to see our economy continue in its present direction and force the small operator to give up and leave only the large, corporates to continue. This could happen if we do not reduce the interest rates, the cost of production and provide better markets for farm products.

There are no simple answers, but from my own local stand-point, the one thing that would help our farmers and ranchers the most would be lower interest rates; or provide assistance in paying interest due, or both. My point is that lenders are going to be weakened each time that a customer goes through foreclosure. The lenders cannot forgive interest and compete for interest bearing deposits and stay in business. They have to have performing loans to do this.

My suggestion would be for the government to provide money for interest payments, so that customers could stay current on their notes. This does not have to be 100% of the interest, but enough to enable the borrower to avoid past due status and eventual foreclosure. We need this type of assistance more than we need money for new or additional loans. We need performing loans from operations already in existence.

I realize that I have only offered suggestions without solutions; but I do not believe that our state and nation can survive, very long, with a weakened agriculture program that in turn could cause financial failures to numerous lending institutions in agricultural areas. My request to you and everyone involved, would be to keep our established farmers and ranchers in business and keep the family-type operation in existence; whatever it takes.

Very truly,

Frank Conway, Sr., *Vice President.*

Waurika, OK, *February 20, 1985.*

Senator David L. Boren,
Russell Building,
Washington, DC.

Dear Senator Boren: This note is in response to the official Agricultural Committee Hearing held on Monday, February 11, 1985, at Oklahoma City, Oklahoma, for input to the United States Senate. David, I am very much aware of the situation confronting agriculture and our entire economy. We have, I am sorry to say, already passed the critical stage, and have been in an emergency situation for some time. However, very few members of Congress except you and a half-dozen others at the Capitol realize how critical and short the time is.

As you know, being involved in the banking-livestock sales-farming-ranching-tax structure-oil and personal business, I probably visit with more people on a personal financial basis than any other person in Southern Oklahoma and North Texas. I have visited with great numbers of these people in the last eight to ten months. There are so many different views as to what the remedy is for this situation and that situation that I am sure you are bewildered many times at the input you receive. You once stated to me that you could hardly understand why every farm organization and most farmers have such conflicting views on farm policies. However, You must realize that 30 percent of the people in the farming business are past recovery and 40% are marginal and are going under. The banks and farm loan institutions are certain to go down with them if there isn't some stop gap put into effect. If the cattle industry were suffering as much as the farming industry, there probably would be no chance of recovery.

Do you remember, as Governor, things had been so bad for the rancher that the Bank Examiners, both State and Federal, were writing up ranch loans for non-performance and forcing the banks to withhold funds from so many of their customers. This was done because the previous year these customers had bought cattle on such a high market and sold them on a very low market to subsidize the farmer because wheat and corn was $5.00 a bushel and the cost of gain was 75 cents to 80 cents per pound in the feedlots. We had to break the feeder cattle and the fat cattle back to the 30's to compensate for the cost of gain. I am sure you remember calling a meeting with your farm committee and the Bank Examiners. From that meeting the Examiners changed their policy on loan write-up procedures. Your influence and the committee's influence helped them to take a different view of that very crucial situation. David, those people that had lost so much the previous year changed their loan performance the next year by buying cheap cattle and riding them back to the higher markets the following fall. But most importantly, the interest was on their side at 6½ to 7 percent.

Because of this meeting, knowing that something had to be done to help these people and hold the Examiners off the Banker's back, you went to work on the 90% guaranteed loan through the Farm Home Administration to the bank. Senator Bellmon had not been able to get the 90 percent guaranteed loans passed in Congress. In fact, it had failed in the Senate two weeks before. I am sure that you did not know how the passing of this 90 percent loan came about, so I will tell you.

A couple of years prior to our meeting, I was selling the weekly livestock sale at Grandfield, Oklahoma. Because of a two year drought and a severe hail storm, the farmers in that area could not make any payments on their loans to the loan institutions including the Farmers Home Administration. The Bank Examiners would not allow the banks to make them any advance credit. One of my neighbor's sons was sent to Grandfield by the Farmers Home Administration to try to remedy their problems. He had worked in the bank at Fort Cobb, owned by Ray Finney, and had had enough farm credit experience to realize that with longer term credit these farmers could survive. I saw him at the sale at Grandfield and asked him what he was doing. He told me he was underwriting guaranteed loans to the banks for farmers in that vicinity. This, from what I understood was a "First" in Oklahoma. So when you met with your Farm Committee members and requested input on a guaranteed loan, I remembered what had happened at Grandfield. I went to Mr. Ray Mendenall, who was head of the Jefferson County Farm Home Administration at this time to find out how he had made those loans and if they were successful. He told me that they were very successful. I asked him why the Farmers Home Administration went along with this. He said they had to because the Farmers Home Administrator in that county had contacted the State Office and told them that they were going to get these farmers in their laps, and at this time they did not have the funds and personnel to handle this many extra loans.

The next Tuesday we had a Committee Meeting at your office with Dr. Polasco presiding. I was late to the meeting which was in progress when I arrived. We had two visitors present who were not introduced to me until after the meeting. I presented what I had learned from Mr. Ray Mendenall. After the meeting I was introduced to the visitors. One was the Head of the State Office of the Farmers Home Administration at Stillwater, Oklahoma. The other visitor was out of the office of the Federal Reserve Bank at Kansas City. I told them that Mr. Mendenall was of the opinion that the Farmers Home Administration was short on funds at the present time, and if all the County Administrators would write the State Office stating that if the 90% loan was not enacted they could foresee many more people applying for loans than they could handle and service, and that they certainly did not have funds to handle all those that could qualify. Mr. Mendenall felt that the banks were better able to service these loans as they had serviced these customers for years. He also thought that if you started at the bottom and went up instead of like Senator Bellmon was doing starting at the top and coming down that the 90% loan legislation would pass immediately. If people on the Agriculture Committee in the Senate knew the circumstances on the county level, action would be immediate.

I am sure the gentlemen from Stillwater and Kansas City, along with you, got this information to Senator Bellmon because two weeks later during our next meeting, you sent us a wire letter that Congress had passed the bill and stated why. And it was exactly what had been presented in our committee. This, David, as you are aware, is how you got the 90 percent guaranteed loan and also, at the same time, kept the Bank Examiners going along with the banks on marginal loans. There would have been many more P.C.A. and Bank Loans turned down to the farmers in the last 18 months if they had not thought their customer could get the 90% loan.

This guaranteed loan has kept farmers from going under until now. Had it not been for the guaranteed loan, inflation could have never come down because we would have gone into a more serious recession because of Mr. Volcker's high interest rate policy. Senator, you have been the most farsighted Senator that we have had since Bob Kerr. Senator Bellmon was the next capable, but he had too close a political affiliation to do the job for the farmer. He was a farmer, and a broke one. He could have helped to save the farmer because he had friends in both parties in Washington, but he was like Mr. Block is now. They are both broke farmers because party came before good policy. The difference between you and Senator Bellmon is that you have compassion over party. Right is Right. Stand by that. Represent what you have been elected to represent, and that is the people of Oklahoma and this nation.

What I am going to say is very blunt. Our trade deficit and our national debt are both the highest on record. Our bankruptcies are appalling. Every time we have a bankruptcy it puts that many more people out of the labor force and off the tax rolls. Recession has been more an instrument in bringing down inflation than high interest rates for the past two years. We have come to a crossroads. The people that are behind can never, not ever, pay back what they owe without 8 or 9 percent interest rates.

There have never been as many past dues on loan payments as there are at the present time. Those past dues collecting on the bank ledgers will bring this country to a screeching halt in the very near future. We must get interest rates down so banks can foresee their customers being able to pay themselves out of debt. The bankers don't have enough guts to be the good bankers that Mr. Block was hoping they could be in his statement about them last week. There is no way a broke farmer can pay back debts when their interest payments are more than their total collected sales after expenses.

A freeze on labor and goods could have been the best out, but that chance has come and gone. We took high interest rates to stop inflation. Either bring them down now or the marginal farmers cannot survive. Thirty percent are gone already. Forty percent are still marginal through the next eighteen months and thirty percent can stay. If we get interest rates down now, and a long term pay out plan, the banks can survive. They can digest the 30 percent that is gone, but the 40 percent marginals will take them down with them, just like the oil loans at Penn Square Bank. If a banker cannot see any chance for a customer to make the interest on his investment, that banker is doing that customer a disservice and Examiners sure won't go along with him. There is only one answer to any kind of survival from the Farmers Home Administration. Cut the red tape and the guaranteed loans to the banks so they won't be afraid to take a loan from the Farmers Home Administration. Senator, It's just like it was in 1976. You will never get enough money from Congress to finance Farm Home. The banks have these funds but the FDIC won't let the banker use them without another government agency guarantee. Get Mr. Volcker somehow to realize that interest at this time has got to be lowered to a very low mark.

This would give the farmers of this nation a chance to catch up on their loan payments and past dues. This would give the loan institutions a chance to believe that, in time, past dues on loans will be met with help from them. This would give the bank examiners leeway to believe that most banks could survive the next three years. Here is the true answer, Senator. You are the one man who can bring this about. You are the one man who gave us the guaranteed loan. The whole nation is riding on your office and expertise. You must perform. If not, the farmer is gone, and so is the nation.

Sincerely,

HOLLIS DICKEY.

P.S. I am sure I said too much at the meeting at Ardmore, but I knew there were a lot of "trickle-down" Republicans and Democrats at that meeting, and the severity of what you had to say when you got back to Washington might just as well start in Ardmore, Oklahoma, on a personal contact basis.

STATEMENT OF WILEY FELTY AT SENATOR DAVID BOREN'S AGRICULTURE SUBCOMMITTEE HEARING IN LAWTON, OK, FEBRUARY 12, 1985

I am Wiley Felty a farmer from Jackson County Oklahoma.

We, in agriculture today need prices far more than we need changes in the Farm Program. The 1981 farm program is as workable a program as any we have had. It is not perfect, but none of the other supply management programs dating back to the 1930's have been either. The fifty thousand dollar limitation of payment excludes so much production from the programs that it tends to defeat the entire supply management theory.

The strong dollar makes U.S. products uncompetitive in world trade and at least one-half of Oklahoma's cotton and wheat production is dependent on foreign trade for its market. With the present exchange rate of the dollar to other currencies, todays fifty cents per pound cotton costs as many yen landed in Japan as 1980's Ninety cents per pound cotton did. Our costs of production have not decreased.

While I will admit that farmers may not have always used the best financial judgment, how are we supposed to be able to adjust when we change from the raging inflation, rapidly rising interest rates, and extremely upwardly volatile costs of the 1970's to the abrupt devaluation of real estate values and rapidly sinking price of the 1980's. It takes at least thirteen months in the planning and production of a crop before any sales and recouping of investment is possible. Long term investments purchased with lenders' blessings in the 1970's are like a heavy anchor today. They can be sold, if a buyer can be found, but very seldom at a price that will aleviate the debit load enough to really solve the economic problems'. And with today's cost of production and extremely low prices the relief would only be temporary. Each crop tends to lack at least some in getting back to equality of production costs.

Who will own America's farm land in the future? Most of my landlords are widow women in their seventies. Their heirs are not engaged in agriculture and in all probability will choose to convert their inheritances into cash to be used in some other place. They should have this choice. This is America and the right to own or dispose of property is inherent. What person in his right mind would invest a substantial amount of money in real estate when at best he can expect only a three percent return on his investment? I ask myself this same question.

I have lived the American dream. I started farming twenty three years ago with a little help from my Father and a lot of desire. There have been good years and bad years. Today I farm approximately four thousand acres in partnership with my father. I have a wife and two children. We have a house in town, not extravagant, but adequate. We even have running water. That's something we didn't have when I was growing up.

In 1979 I had a net worth in excess of seven hundred thousand dollars and paid more income taxes than I dreamed of grossing in several years. Last week my lender and I went over my assets and liabilities and discovered that my net worth is now five dollars. I'm lucky, many of my contemporaries are in a negative position. This has occured farming the same land in the same manner as before. I have purchases no new equipment since 1981.

The lending institutions and myself own some of this land but most of it is leased. At the present rate of regression soon all of it will be leased; if I survive.

There are only four sources of new money: Farming, Fishing, Mining, and Manufacturing. All other segments of the economy live and grow on monies and jobs derived either directly or indirectly from these four.

Now if you would permit me an analogy. I had an Elm tree that I wanted to get rid of. I pruned all the limbs off of the tree and soon it came back and was very healthy. I pruned it again and still it responded with vigorous growth. Finally I started pruning roots and the tree died.

Our economy is like a tree. It appears healthy. However, my friends, the roots are dying. Can the tree long survive?

STATEMENT OF WILLIAM FLANAGAN, EXECUTIVE SECRETARY, OKLAHOMA PEANUT COMMISSION, MADILL, OK

If Congress does away with the peanut segment of the Farm Bill and does away with import controls on peanuts, I believe you will see manufacturers importing all of their peanut supplies from Red China and Argentina.

This would result in a poor quality product for the American Consumer. As you may or may not know, the peanut producers and peanut shellers have built in a quality control system second to no other country in the world producing peanuts.

Peanut producers receive on the average 27.5 cents per pound for farmer stock peanuts. The manufacturer sells this pound of peanuts to the consumer for around a $1.35 per pound in the form of peanut butter and yet the manufacturer wants a cheaper priced peanut. They are already making a gluttonous profit.

This would also end the U. S. role in exporting the highest quality peanut on the market today further reducing our balance of trade and eliminate some 300,000 jobs all paying Federal Income Tax.

It would play havoc with the peanut farmer, the peanut sheller and all others involved in moving this raw product to the manufacturer.

STATEMENT OF JIM GODWIN, SPRINGER, OK

Dairymen and Beef Producers are really in the same business. The cow calf operator sells milk through a calf and the Dairyman sells milk to consumers. When the cow stops raising a calf she goes to slaughter. When a Dairy cow stops producing at a profit she goes to slaughter. When a dairy cow goes to slaughter she produces no more calves, therefore, decreasing beef production. The average for a dairy cow is three lactations or calves. The only way to reduce dairy cow numbers effectively is to reduce the number of Dairy heifers. The dairy industry has a minimum of a three year planning cycle. One year to get the cow breed and two more years to get the heifer into milk production. At an average of only 1½ heifer replacements to the cow with the death loss included 1¼ replacements per cow, once the number of Dairy cows is reduced it will take nearly 10 years to significantly increase the Dairy herd's. The Dairy industry really requires a 5 year planning cycle. Any plan that does not plan on this level is doomed to failure. You cannot turn a milk cow off and on. A milk cow consumes approximately 5.5 tons of hay and 3 tons of grain per year. This means that every milk cow circulates approximately $1,000.00 in feed consumption through the agricultural community.

Agriculture in the U.S. must be helped immediately or it will be to late. We only ask for a decent price for our product.

STATEMENT OF ROY GRIDER, PERKINS, OK

CURRENT PROPOSAL OUT OF WASHINGTON, DC

Free Market—We do not have a free market—Other countries protect their farmers. So, it will not work.

Why? (1) With free market you have feast or famine—all farmers would go broke during low price years and on the average, prices would be below cost of production.

(2) They (Washington) ask for lower prices so that commodity surpluses would all sell on world market. The reports I've read say the price of wheat (as an example) would need to be between $2.25 and $2.50 per bushel to clear surpluses and it would take 5 to 10 years at these prices to work. All farmers would go broke at these prices.

THE ONLY SOLUTION TO THE FARM PROBLEM IS HIGHER PRICES

Reason? (1) We cannot control input costs. (2) Credit relief would help and is needed but there is no way to reduce debts unless you can show a profit. (3) Increased export sales below cost of production will not give a profit. (4) Can be achieved by government subsidy (which we cannot afford) or by mandatory production controls.

PROPOSAL

Hold a national referendum of farmers to set mandatory controls.

Set acreage and/or quotas by commodity as needed to bring supply in balance with demand.

And give protection from imports where needed.

Would need credit assistance until farmers had time to recover from current crisis.

BENEFITS OF PLAN

(1) Farmers could make a profit—which would eliminate the farm crisis.

(2) Agri businesses could show a profit.

(3) Would stop the flood of rural bankruptcies. (farmers-businesses-rural banks)

(4) Would have good effect on whole economy due to multiplier effect.

(5) Since we (US) are the main supplier of world food and fiber for export, this would raise world prices and would help other agriculture exporting countries.

(6) No cost to the government.

VICKIE HALL,
Duke, OK.

TO CONGRESS AND STOCKMAN:

If what I say fits you then change. If what I say does not fit you, then put your eyes on the ones it does fit.

For all you uneducated politicians who think you qualify to run our country and control our livelihood, I'm sending you an invitation to come to our home, we are farmers. I promise to give you such an education that you will be a well informed, very educated Politician when you get back to Washington. Then maybe my opinion of you will be better because I am convinced that some of you big city boys were raised in the Ghettos and grew up in the welfare lines believing food should be free and farmer should starve.

In spite of your ignorance I do believe you are hearing loud and clear the voices of the people as the delimia is wide spread and devistating in the total farm sector of our U.S.A. The farm situation is being head from 3 percent of the total population of this nation. That may not seem like many, but that's all that's left, that's all of the farmers in the U.S.A.

What gives you the right to turn a deaf ear to the voices of the people—all the people left to feed your face so cheap. All the people who struggle to fill your bellies, while you ignore their cries for help and you justify your actions by blaming the farmer for getting himself into this mess. You better count your blessings fellows, because as you feed your face with cheap food and talk of shutting off the lifeline of the 3 percent that feed you now. You are going to be too busy a few years from now trying to make enough money to feed your face and then there won't be enough money to buy toilet tissue and paper towels much less fur coats and vacations.

Three percent of the total population in the U.S.A. feeds the other 97 percent of the U.S.A. plus other countries. This 3 percent subsidizes the others in cheap food while the farmer suffers the brunt of our kindness.

This 3 percent provides jobs for one of every five people in our country.

To all you uneducated politicians who say we farmers deserve to loose our livelihood as we have done this to ourselves. If your attention span is long enough then let's play a game.

Put the farmers shoes on your feet a while and see the true picture.

Let's pretend the government steps in and controls your livelihood. They say "Your income is cut in half right now"—no benefits, no health insurance, no pension plan or free gradus—no expense account. You will be expected to carry on as usual doing the best job possible for our nation. All necessary flying trips and food, lodging will be done as usual but at your own expense. Then a tornado comes along and destroys all the back-breaking efforts you have made to earn your wages. So your boss says—sorry—I can't pay you for something that isn't there. So your salary was cut in half—you had to cover all expenses involved in doing your job—then a tornado destroys all you have done to earn at least one-half your normal pay. Now where are you fellows. Well—If you hadn't bought that car or luxurious home—you wouldn't be in a financial dilemma. Would you fellows? Would you like for this to be a reality in your life. Don't you think that would be more than fair? No—Hell no.

But why not? It's what you have done to the farmers?

We did not ask for an embargo.

We did not ask for cheap farm or farm product prices.

We did not ask for high interest rates.

We did not ask for that tornado, hail storm or drought.

All we ever asked for was a decent day's pay for a full day's work.

We never asked for free health insurance.

We never asked for an expense account.

We never asked for a pension at retirement, plus another government job to go with it.

Our military is trained to defend our country, but they are well provided for in exchange for their dedication and efforts.

The farmers are forced to feed the world for less than it cost to produce that food and clothing—then forced to borrow money at high interest rates year after year and in the end to-root-hog or die—in exchange for our dedication and efforts.

No one has ever done more or given more for the good of our Nation and been compensated less for a job well done than the American farmers.

So—get up off your assets and do the job of a well informed and greatful politician and give us back our assets which we have never had the time to sit on. After all who is really dumb enough to cut off the hand that feeds him.

STATEMENT OF PAUL E. HALLUM, MANAGER, WILSON CO-OP, WILSON, OK

Southern Okla Peanut Growers Association, better known as, "The Wilson Co-op", is a small farmers co-operative in Carter County.

We serve a large area, in that we serve farmers and ranchers in about a 35 mile radius of Wilson, Oklahoma. Our customers are largely the smaller farmers and ranchers.

Our business consists of sales in feed, seed, fertilizer, farm chemicals and vet supplies. We have access to almost anything the farmer or rancher might need in his or her operation.

Our basic reason for organization is a peanut buying point and a wheat buying point for love and Carter Counties basically. We handle the farmers peanuts and wheat for his convenience and this is our major source of income. If we did not handle peanuts from a drying and storage standpoint, our co-operative could not last more than two years.

In the four years I have been associated with this facility I have seen three farm store operations close their doors and have not re-opened by new or the old owners and one has declared bankruptcy. I have only seen one new store opened in this same period and I do not believe he or anyone else can survive in this business without something like our peanut buying operation.

The Wilson Co-op is important to our farmers and ranchers. I am not sure how many in National Government are aware of the roll we play in agriculture. It is my understanding that the Johnston County Co-operative will close February 15th with some $800,000.00 in debts and many more operations of our type will do the same in the near future if the agriculture picture continues in the direction it is going.

HYDRO, OK.

DAVID BOREN,
U.S. Senate.

I think supply management should be put in effect as soon as possible for all crops that are consumed domestically.

I also believe that prices for domestic crops should be tied to what ever percent of parity that would put the farmer on a equal footing with other segments of the economy.

As for export markets I am inclined to believe a farmer should be allowed to sell on the world market at the world market price. It would still be a two price system, but I think it would be fair as for as the free market I don't believe it has ever existed.

President Reagan and Mr. Stockman's remarks about farmers buying high priced land getting them into financial trouble is for the most part nonsense. All of us know hard pressed farmers that haven't bought land in years.

We just can't continue to sell crops below production cost.

I know you are aware of the farmers problems and I believe you are doing everything possible to help us and I sincerely appreciate it.

W. N. HAMILTON.

FEBRUARY 11, 1985.

Senator DAVID BOREN:

I am Glen Harvey a farmer in Caddo County Oklahoma. I appreciate the opportunity to express myself and views on our farm situation you have given us.

I farm peanuts, wheat, watermelons, hay and cattle. All parts of farming are stagnate. Prices of farm products are well below casts of production by our testimony as well as U.S.D.A. figures. Over the past 4 years land prices have dropped 35 to 40%, capital expenditures have risen 40 to 50%, and fuel costs are up 40 to 50%. Living costs have jumped likewise as you all know. Farm products are the same or below prices of 4 years ago.

I think all major crop programs could be patterned after the peanut program and solve most problems. Establish quotas for domestic use from the past history on these farms. Set prices one these quotas above costs of production. If a farmer wishes to produce or unintentionally exceeds their quota base on these crops, they would be called additionals. Additionals would be put into association pools in designated areas divided across the country for export only. Set these prices at levels low enough to insure against any costs to the government or tax payers. In case of a shortage for domestic use, set up a buyback provision on these additionals at quota price plus shipping and handling costs.

This would create the stability we need. It would increase the price of farm products, while raising costs to consumers very little. Because prices paid for farm products have little effect on manufactured price. Also it would lower consumers tax burden due to much lower government costs over our present program.

Senator you know our troubles were raising these crops at 54% of parity. No one else could stay in business with these figures and were not either. There's a lot of folks in Washington that don't seem to realize how tough it is. Maybe with enough help from us you can turn their heads and deal with our problems.

Thank you Senator.

Sincerely yours,

Glen Harvey.

Dear Senators:

Our young farmers do not need anymore credit. They've had too much already. They need profit.

President Reagan picked top men to head the Grace Commission and they recommended the Farmers of America should have government supports.

If the family farmers go broke so will the country, as it did in the depression. Corporations in farming will mean much higher food bills for Americans. Big is not always best.

This Republican administration wants farmers on a free-market program, but there cannot be free-market in farming because of embargoes, quota, favored-nation status and all the manipulating of interest, inflation etc.

We farmers cannot compete with multi-billion dollar corporations. Past history points to the fact that all the country is better off when the farmers have supports. Parity is the fair way, in my view.

The government assures a great profit to utilities. Surely food is as important.

Ron Harvey.

STATEMENT OF LARRY HICKS, BURNEYVILLE, OK

I am 42 years old and have lived and farmed all of my life on this farm in Southern Oklahoma. I farm and ranch about 700 acres.

I have one 16 year old tractor and one 9 year old tractor. My planter is 18 years old, peanut combine 11 years old, and my grain combine is 16 years old. I need to update my equipment but you can't justify a $50,000 tractor and a $75,000 combine with $3.00 a bushel wheat, $60 dollar CWT cattle, and $450 dollar per ton peanuts. It sure would be nice to have better equipment, but with these Depression prices that we receive for our products, combined with the high rate of interest we have to pay for our operation money, a farmer can lose his whole farm trying to pay for equipment.

I get the impression from David Stockman and some of the other Washington bureaucrats that they want to do away with the farmer and the rancher who are 3% of our population and getting to be less every year, and instead import all that we grow: wheat, cotton, corn, peanuts, beans and all other produce. Can you picture what that would do to our balance of trade with which we as farmers have been subsidizing our government and all the agriculture-related jobs for decades? That would do away with shippers, processors, equipment manufactures, equipment dealers, and other related jobs that depend on Agriculture. We have subsidized the consumer with cheap high quality food which takes less than 18% of their income and that gives them money to spend for all the other things that make our standard of living in America the highest of any country. Mr. Stockman, if we imported all we grow here you would be spending at least 60% of your paycheck for food alone. So when you talk about subsidy to Agriculture, you are picking on the one group of people who are the base of our economy who has made America what it is today.

Now for my opinion on what we should do in Agriculture.

We should set our own prices—the cost of production plus 20%—cut our acreage 25% which would give us a profit so that we could buy machinery and other things that would put a lot of people back to work. Our Government, instead of giving billions of our strong dollars away to other countries, could give them certificates that they could take and trade in for wheat, cotton, peanuts, beef and other produce that we raise. We don't want government subsidies; all we want is a fair price for our products. We are the only manufacturer that produces something and then lets someone else, who is not acquainted with cost of production or the risk involved in growing a crop, tell us how much it should sell for.

Everytime I turn around someone is attacking Agriculture. We in America have the highest quality food of any nation, the safest to eat of anywhere. We hear diet experts, or so called experts, claim nearly everything we grow is causing cancer. I think they are missing the greatest cause of all our problems, which is stress. When people are overcrowded with high noise levels at work and in the home, then the stress of all those things comes down upon them causing ulcers, cancer, nervous disorders, heart trouble and other related illnesses. Then they turn to alcohol, tobacco and drugs which compound and accelerate these conditions. I believe stress is the number one cause of all accidents in Agriculture today. We as farmers are now under more mental stress than ever before in all the history of our great nation. Mr. Stockman, if they would cut your salary to about a third of what you are making now and double your expenses then you might get a picture of what we in Agriculture face today.

In closing I would like to state again, we don't want subsidies, we want a fair price for what we grow.

STATEMENT OF BILL IRWIN

CONCERNING THE DAIRY DIVERSION PROGRAM

The Dairy Diversion Program has worked. Milk production is down 3 percent from 1983. Government purchases are down nearly 50 percent. Government costs have been cut by over 1 billion dollars, and the dairy diversion payments are being made totally by the dairy industry.

If the Diversion Program ends, I fear production will increase, and once again cause the supply-demand imbalance. If this happens another 50 cents per hundred weight assessment will be imposed April first and possibly another 50 cents assessment on July 1st. This would mean financial ruin for many Dairy Farmers. This can be avoided by extending the Diversion Program. I have heard it rumoured that there is fear that so many Dairymen would participate in a new diversion program that it would cause a milk shortage. This also can be avoided by simply extending the existing program with those dairymen who have already participated. This may seem unfair to some dairymen who would like to be on the program, but every dairyman had the same opportunity to sign up for the diversion program, but only 12 percent did.

I think the diversion program should be extended with those dairymen already on it for a period of at least 9 months, until Jan. 1, 1986. I think this would accomplish two things:

(1) It would keep a lot of heifers from being put on the milk line after the first of April, and this will help hold production down.

(2) It would give some time not only to government, but also Dairymen and Dairy leaders to come up with a Dairy Program that will work for years to come without putting such a great financial burden on those producers who have reduced the size of their herds for this program.

If there were not enough dairymen on the program who were willing to extend their contracts for another 9 months, and CCC purchases begin to increase, then impose a 35 cent per hundred weight assessment to take care of any new increase.

The one thing two more 50 cent assessments would accomplish is to financially destroy those Dairy Farmers who are already in financial trouble.

THE CITY NATIONAL BANK & TRUST CO.,
Guymon, OK, February 13, 1985.

Hon. DAVID BOREN,
U.S. Senate,
Russell Senate Building,
Washington, DC.

DEAR SENATOR BOREN: I have been asked to write a letter, on behalf of the farmers in our trade area, to be submitted to the Senate Agriculture Committee. It is my opinion that we have two classes of farmers in the Southwest United States. They principally produce wheat, grain sorghum and corn. Some of them have facilities that allow them to handle cattle over a 12 month period.

The most substantial group are older people, past 50 years of age, that own their own land practically free of any encumbrances. They have some oil and gas income. Through the love of the land and the love of farming, with their long term experience, they are able to produce the above crops at some level of profit.

The other group are younger farmers that are heavily in debt in land and farm machinery. Quite a few of these are tenant farmers.

I feel that approximately 35 percent of our farmers will not be able to continue farming without some sort of subsidy from the U.S. Department of Agriculture. The set aside programs, price support and diversion payments have kept most of these people in business for the last few years. Many of them, without these support payments, will not be able to continue farming.

Farmers realize that production must be cut back in order to alleviate a surplus that we cannot sell as export or for domestic consumption. I believe that it is the general feeling of the local agricultural community that we need to subsidize the export sale of American agricultural commodities which are faced with subsidized competition from abroad.

The world market today doesn't allow farmers to compete head to head with foreign producers of agricultural commodities. The United States is the only major exporting country in which the government does not become the bargaining agent for farmers.

I feel that we must give U.S. farmers a fighting chance to compete by ensuring that foreign governments don't use their treasuries to undercut our farmers' prices. During the last four years American farmers have lost 25 percent of their export markets. I believe that this Administration needs to stop blaming farmers and start helping them compete in world markets, just as every other major exporting country does. Canada has offered long-term, low-interest loans, European Common Market countries have offered shipping subsidies, Argentina has offered discounts and Australia has offered bonuses—all of which are designed to undercut the American farmer's price in the world markets.

"Elimination of all trade barriers should be our goal."

Farmers cannot produce these commodities below their cost or near their cost and be able to survive as a family farm.

As an example of the local farm plight, we have had a farm family use this bank for their source of credit for several years. Each year they borrow operating funds and each year they have been able to pay the operating loan off after the harvested crops have been sold. 1980 was the last year in which they paid out. A renewed note was made in 1981, lacking $40,000.00 paying out. In 1982 and 1983 they renewed with a deficit and in the fall of 1984 they renewed, lacking $91,000.00 paying out. Using a cash flow analysis and projections, the year 1985 would show that they would break even with no funds to service the debt and that they would not be able to pay any interest on their loan.

We do have a responsibility to protect all interests of this bank. We suggested to these people that they seek help from Farmers Home Administration. They elected not to do this. They indicated that they would farm and continue to do business with this bank until the bank could go no further. Using these projections and forecasts that they submitted to us, they were told that in order to protect the interests of this bank we would only be able to renew their note in the fall of 1985 in the amount of $75,000.00, which includes interest. Abundant crops or better prices are the only way that they can continue their farming operation. They have been given one year notice of this bank's position.

This is just one example and there are others in our community that are in similar circumstances. If the government turns the farmers to the Free Enterprise System, I feel that 35 percent of the local farmers will have to liquidate.

Very truly yours,

AL JACKSON, *Vice President.*

STATEMENT OF LARRY JEFFUS, GUYMON, OK

The agriculture industry of today faces the most severe economic climate since the Great Depression. Politicians, farmers, bankers, economists, and many others agree that something must be done in the 1985 Farm Bill to ease this crisis. New inovative programs combined with the traditional programs that have been successful must be implemented.

I would like to submit the following two pages as the basis for the 1985 Farm Bill. Land Retirement is not a "cure all" for today's farm problems but it can be a long term solution to the over-production problem, while phasing out the other forms of government payments. Land Retirement will be a more orderly transition to a truly market oriented agriculture.

LAND RETIREMENT—THE WAY TO A MARKET ORIENTED AGRICULTURE

The market orientation theory would be desirable to all farmers, only if agriculture could be returned to a supply and demand price base without financially strangling America's farm families during the transition. I suggest that a land retirement program could be the cheapest and most effective mode of transition.

One of the major problems with recent farm programs is that their design stimulates over-production. Marginally productive lands that are otherwise unprofitable to farm are being operated. Former Agriculture Secretary, Bob Bergland, is quoted as saying, "There are some 50 million acres of marginal land being farmed in the United States today." The simplest method of transition for both the farmer and the government would be to retire these acres that are now unprofitable to the farmer and the government. A land retirement program would redirect government spending from current subsidies to funding the seeding of these marginal lands to grass. The reduction of lands being cropped would decrease the products available for sale. This would cause an increase in prices and the return of profits to farming again.

It should be noted that retirement of more than marginal lands may be required to accomplish the price and profit goals. In order to retain the desired goal of market orientation, retired lands must be kept out of production long enough for the balance of supply and demand to be restored. Retired lands should be returned to production only if the remaining lands are unable to meet the world demand. Consistency in this direction would allow the agriculture industry to recover from its depression, and return to a supply and demand market.

The crops produced on the marginal lands, while not adding to the farmer's profit picture, except in the form of subsidy payments, do increase the spending under USDA programs. These crops are subsidized, in the form of price deficiency payments, and also in the form of storage. The projected budget for land retirement would require an initial expenditure to finance the seeding of grass. Obviously, there must be some form of compensation to hold retired lands out of production and it should have several options. Some options might be: (1) An annual payment similar to the Bank program of the 1950's. An annual payment in this form would be much cheaper than the per-acre cost of the present program. (2) A reduction in the farmer's indebtedness to the government. Many farmers are indebted to the government under current programs that are financed by the FmHA or the SBA. A large number of these farmers are now unable to make the payments on their loans. This option would extend the farmer's recovery period as well as reduce the projected budget requirements for several years. (3) Allowing grazing of a portion of the retired land instead of receiving a cash payment. The goal intended by land retirement is not a threat to the livestock industry but, rather an insurance policy.

Many of the lands that could be retired are currently being grazed either before or after the subsidized crop is harvested. Land retirement should be designed to neither reduce nor expand the number of acres of pasture. Instead, it will prove to be an insurance against drought. The livestock industry's greater threat is in the government's proposed solution of returning to market orientation by simply stopping USDA support. The only recourse then left to many farmers would be to turn to forage and livestock production to support their families.

There may be displacement of some farmers, whose whole farm would qualify for reseeding and are unable to use the grazing option. The total number of displacements would be considerably larger if the administration implements its plan to return to a market orientated economy by sharply reducing or eliminating all government aid.

Public opinion may see land retirement as a potential for increased food cost or a retreat from a "cheap food policy." In reality this type of reform would cause less increase in food costs than another possible end which could allow large corporations to gain control of American agriculture. These corporate farms would be much like the oil companies in their ability to withhold products from the market until a desired price is attained. This would be much more costly to the consumer than the free market system that is desired by the family farmer.

The croplands that are planted back to grass are like money in the bank. While these lands are resting, their productive capacities will be increasing. In the future, as export demand for U.S. grains increase, more productive lands would be available to return to crops. An important side benefit would be the increase of hunting and recreational lands.

The most cost effective way to administer this program would be through the Soil Conservation Service. This entity has the greatest knowledge and expertise in matters of this type. A land retirement program would allow the more costly ASCS to be phased out. Using the SCS to administer the land retirement program would result in the cheapest and most effective means of administration.

Land Retirement is clearly the solution that offers the most for the farmer, the cattleman, and the consumer alike, and is also the least expensive for the government.

STATEMENT OF HAROLD JOSEFY, GRANDFIELD, OK

It seems to be the policy of the present administration to cut the Budget anywhere except where it adversely affects contributors to their causes. The Budget Director has said that it should not be the taxpayers' place to rescue the farmers who cannot make it on their own. I ask why was the farm sector singled out to bear the brunt of the grain embargo just after the farmers of America were asked to plant fence to fence because never again would they be able to raise enough grain to feed the starving people of the world. It seems that farmers are always the pawn in the political arena. When they were asked to produce they produced in abundance, then they were slapped in the face with the embargo and stuck with prices for their produce that are below the cost of production. Farmers are always a creature of hope. They keep hoping that due to a drouth here or a storm there that prices will improve. If it is not the Governments place to come to the farmers aid, then is it the farmers place to carry the Government through a selective embargo that served no purpose but to lower the cost of farm produce and show the world markets that we were not a dependable supplier of food stuffs to the world. Other nations of the world provide subsidies and tariffs to aid their agricultural sectors. Why, when it is in the best interests of the U.S. and the world, is the Government of the USA, unwilling to help the farmers out of a dilemma that was caused by the Government in the first place. It seems that when people in one part of the world are starving to death, and the farmers of the USA are suffering from surplus caused low prices, the Government could at least provide the transportation to move the surplus to where it could be used to save lives and at the same time remove this surplus from keeping our prices depressed. It seems to me such a simple, logical solution that our present administration can't or won't even consider it. If it's simple and can be understood by the average person it's not to be done by the government. If it doesn't contain a lot of legal gobbledegook, it must be beneath the dignity of Government or the administration to even try it. Lets try to make a little sense.

Let's try to do something that the average man on the street can understand. If we don't do something positive now, the farm sector failure may only be the first domino of the chain that causes the fall of the democracy that has been the idol of the world. Down through history, when a civilization fell, it was always preceded by the demise of the agricultural sector. When the Government ignored the farmers it always followed that the people quit having faith in the leaders of their particular civilization. Why, when we have the wisdom of what caused past failure, do our leaders not see the writing on the wall and apply a simple solution and keep our democracy strong by giving our surplus to the needy people of the world. I hope our leaders are not so educated that they can't see a simple solution.

STATEMENT OF DEE KEETON, KINGSTON, OK

Sir, My name is Dee Keeton. I am a peanut farmer from a small, rural community S.W. of Kingston, OK. I am past Chairman of the Oklahoma Peanut Commission and Chairman of the Marshall County Democratic Party.

Peanut farming is a way of life across Southern Oklahoma. Most of us come from farm backgrounds. We have seen good times and bad, but we have always existed under a Government assisted program. Peanut farmers know all too well the volatility of Government supported farm programs. We cannot understand why we must defend our program every 4 years when the cost of it is insignificant to the government. The most recent USDA statistics as of last Monday say that during Fiscal Year 1984 the peanut program cost the United States Government $1,167,000. Compared to a total federal budget deficit of about 7.3 billion dollars, we amount to a mere drop in a very large bucket. Our program works so well that we are the envy of almost every other farm commodity group. A reliable source inside the USDA told me yesterday that the peanuts in the Southwest Loan would almost certainly make money this year, thus reducing the FY '85 program cost to zero. Peanut farmers have willingly made the transition from an almost complete governmental subsidy in the late '60s and '70s to a well-oiled supply-management program in the 80's. We didn't think it was possible, but we learned to live with a two-price supply management system wherein the U. S. Consumer is assured of a good supply of a high quality, nutritious product and the export market has an abundant product that is unmatched in world trade. Even though other countries are noted for peanut production one only has to look at their product to realize how good ours is. During 1984 I had the opportunity to personally inspect and taste peanuts raised in China and Indonesia and I have no doubt that ours are better!

Since our peanut program falls into the category of a "Government Subsidy" as far as the media, the public and Congress is concerned, undoubtedly we will come under fire when the 1985 farm bill is written. My message to you today is that the Oklahoma Peanut Growers Association and the Oklahoma Peanut Commission are in complete agreement with policies formulated by the National Peanut Growers Group which is the official policy setting organization of all U. S. peanut growers. We feel that some slight modifications and fine tuning will make our program compatible with domestic policy with little, if any, cost to the taxpayer.

As far as farming in general is concerned, we are confused. We know that the prices we get for our products do not pay for the cost of raising them. During the nationally televised presidential debates less than one minute was devoted to farm problems, yet, when Congress convened the evils of governmental intervention in the lives of farmers was one of the first topics brought up as a means of federal budget reduction. One urban Congressman remarked early on in the new session that those farmers that were so far in debt and needed to borrow more money to continue should be forced off the land so that better managers could take over. The government could then take the money that would otherwise be spent on "bad farmers" and create new jobs in town where they could "earn an honest living". I would like to tell you today that this kind of thinking is wrong and that I want one of those jobs he would create. Naturally, I want the one that pays at least $100,000 per year with all the fringe benefits, paid vacation, company car and a gold American Express Card. How foolish can we get! Budget Director Stockman's recent comments about farm businesses not being worthy of further federal assistance are totally asinine. Instead of being "sent to the woodshed" for making them, as he remarked, perhaps he should be sent to the gallows.

We know that the federal deficit is too great and the Reagan Budget too expensive—and we don't have solutions that would produce any real results. We do know that our farm products don't bring in enough money to balance our budgets and reduce our deficits. This week I checked prices at some local agricultural dealers and I couldn't find anything that costs less now than it did last year. Furthermore, a 10-year price differential check reveals even more startling figures. Ten years ago a 120 H.P. John Deere Tractor cost about $20,000. Today, the same tractor costs about $50,000. Now, most of us can get along without that new John Deere tractor and fix up the old one and get by. But, we still have to plow our land and simple things like 16 inch plow shares cost $15.71 in the 1985 John Deere price book; whereas the same plow share cost $4.00 in 1975. We have been accused of living beyond our means and most of us won't be able to afford to buy a new tractor this year, but all of us will have to plow our land and we will have to buy those $15.71 plow shares. I don't see many reductions in the costs of ag-chemicals, seed and fertilizer. Someone also apparently forgot to tell our bankers that the prime-rate has gone down because bank interest is still about the same as it was last year. We can't pay that kind of money for plow shares and interest if we don't get more money for our crops.

Farmers are a unique kind of businessman. We pay retail prices for tractors, plow-shares and chemicals, then we take our crops to market and take whatever the warehouseman will give us for them. We are totally without bargaining power on both ends. No other business operates that way. Until we can either buy those plow shares wholesale and demand and get retail prices for our products we will continue to go further in debt.

We hear the economists say "Get the Government out of agriculture", so farms can operate in a free market and expand foreign trade. I interpret this as meaning "encourage fence to fence planting so that there will be so much wheat, soybeans, and peanuts that the people who buy them can get them cheap and the U. S. Government will have cheap bargaining levers to use in world foreign trade policy." After all, food is America's Oil in world trade. It's all our nation has to bargain with and it has to be cheaper and more abundant.

The people who buy our peanuts and turn them into peanut butter and peanut candy would like everyone to believe that farmers are ripping off the government and the consumer and are, in turn, getting ripped off themselves by not being able to raise all the peanuts we want. These people have instant access to the media and have enough money to buy full-page ads in the Washington Post. Not everything they say is true, and they don't care as long as a Congressman reads it and believes it.

Some years ago it was my pleasure to attend a Senate Ag. hearing in Washington, presided over by Senator Talmadge. I remember Mr. Jimmy Mack, counsel for the Peanut Butter Manufacturers and Nut Salters Association giving a passionate plea for lower peanut prices. He was asked the direct question "If you could buy peanuts a nickel a pound cheaper would you guarantee that peanut butter would go down a nickel a pound in the grocery store". He could not be forced to say that the peanut butter would be any cheaper regardless of how much less the peanuts cost. All this leads me and a lot of other people to believe that the price of food in the grocery store does not have much to do with the cost of the main ingredient. We all know that the wrapper on a loaf of bread costs more than the wheat in the bread, yet farmers are portrayed as villians to Mrs. Housewife who is convinced that we are making a killing off of the family's paycheck.

Sir, "it just isn't so! We humbly ask you to help us in the coming months of arguing about farmers and farm prices. We don't have many answers to the multitude of questions that might be asked, but, as one sage put it, "farmers are in a hell of a mess until a barrel of oil is worth a pair of new bib overalls and as long as a bushel of wheat won't buy a shave and a haircut at the barber shop".

We know we can't borrow our way out of the mess we are in. More loans to put in crops that will be sold at a loss is not the answer. We have to have the money to put in the crops, but we also must be able to sell those crops for enough money to pay the interest and the loan and have something left to live on until next year. If I can't sell what I raise for enough money to live on and keep my debts paid then don't loan me any more money just so I can get further in debt.

All of us here today thank you very much for giving us this opportunity to talk to you. We hope that you can go back to the Hill and come up with a plan that will work. Certainly, none of us envy your position.

WALTERS, OK.

Senator DAVID BOREN,
Russell Senate Office Building,
Washington, DC.

DEAR SIR: The following is an outline to a farmers problem:

1. We were victims of an embargo. a. We lost the credibility of a nation that would stand behind their grain deals and not be swayed by politics. b. Once these markets were picked up by other countries that would supply the needs then we as an exporter lost a customer.

2. Lost markets coupled with either flood or drought. a. With the supply of farm commodities increasing due to lost markets, we also suffered from either drought or flood conditions that caused low yields. b. Low Yields, high carryover, and low commodity prices set us up for high debt loads.

3. High interest rates and heavy loans. a. Due to the above conditions and high interest rates, we are faced with the problem of generating enough income to even pay the interest on our loans.

4. Lost markets due to value (strong) American dollar. a. I understand that since 1980 the American dollar has increased in value compared to other World currencies by some 70-plus percent. b. Add this situation to the buying countries buying power, and again we have a situation which will decrease exports and increase supply.

5. Back again for more borrowed capital.

6. We face all of the above along with the threat that farm programs will be curtailed in the future. At this point I can see no future for American Agriculture in the World Market Trade due to a strong U.S. dollar.

7. Unless something is done to head off the inevitable, I fear that the United States is in for an extremely high rate of unemployment and possibiy a nation of bankruptcy.

Very sincerely,

JARVIS G. KINDER.

STATEMENT OF LYMAN KNAPP, VICE PRESIDENT, OKLAHOMA AMERICAN AGRICULTURAL MOVEMENT

THE ECONOMIC CRISIS

The "don'ts" should be fairly clear to the agricultural policy makers.

For heaven's sake (and agriculture's too) not another "farm liquidation bill" like in 1981!

You ask, what do you people want in the 1985 farm legislation?

EQUALITY

Monetary equality is the goal. What I am saying is, the nation must provide a comparative equality, parity, to agricultural prices. Have you noticed the bankruptcies, foreclosures, liquidations lately in the industry? How about bank failures? Why is International Harvestor broke after over 150 years in the farm equipment industry? And why is Allis-Chalmers hunting a buyer for the agricultural division?

The reason is the comparative price of the products of agriculture.

COMPARATIVE PRICE TO WHAT?

The cost of production, of course. With a negative comparative price, there is no profit or margin in the operation. This current negative price, lack of parity is the problem.

How do you propose to achieve a positive comparative price?

1. A non-recourse government loan that reflects the cost of production plus a reasonable profit.

2. A statutory floor in the Board of Trade equal to cost of production plus a reasonable profit.

3. Stop the practice of the Board of Trade of selling and buying commodities they do not own. In the recent year all soybeans in the nation were bought and sold 37 times before the play ran out. Wheat was sold 10 to 20 times. Only one person actually owned the commodity—the producer.

What was all the other movement? Did it pertain to price discovery? And if so, what impact did this fictitious trading have on price discovery? We contend this fictitious trading (gambling) is a definite price depressant. Speculative short selling must be stopped. These speculators are gambling with the health of not only agriculture but the nation, as it is now clear.

But, you say, you want to close the Boards of Trade? No, I did not say that, just take out the gambling.

Have you noticed there are onions in the grocery store? Onion trading on the Boards of Trade is prohibited by law, U.S.C.S., Sec. 13-1, and we still have onions.

Potatoes are in the store too, and both onions and potatoes are available to everyone with no Board of Trade action.

So the next question is: Do we really need a Board of Trade? In this case, the answer is no.

In spite of all this criticism of the Boards of Trade, they could continue to provide a service. But let us direct this effort into a condition that reflects a much truer aspect of the supply and demand equation.

4. Supply management is the other point. And I mean a determined law that will reduce the supply.

FIRST SOUTHWEST BANK,
Eldorado, OK, February 7, 1985.

Hon. DAVID BOREN,
Oklahoma City, OK.

DEAR SENATOR BOREN: Thank you for the invitation to attend the Agriculture Committee hearing on February 11, 1985. I do plan to attend but since I consider myself a poor public speaker, I shall make my remarks by written testimony. I am both a farmer and owner of a rural bank, however, my remarks will be those of a banker.

Eldorado is a community of 750 population in arid, extreme southwest Oklahoma. We are the only bank in town with total assets of $12,500,000. Due to the remoteness of our location, we have historically had a high loan to deposit ratio. It is presently at 70%, which is high by some standards by some standards but acceptable due to our location. Our loans are approximately 90% agriculture or agricultural related. Our bank, customers, and community, are totally dependent on each other for survival.

I have great concern that pressure from the regulatory authorities will demand that some loans be liquidated, whereas they might be worked out given the time to do so. My opinion of the Federal Reserve and State examines on their last examination was that they were both over reacting and hostile toward ag loans. They were critical of my concentration of agriculture credits, even though we have had this policy since 1902.

I was infuriated by the remarks made by Stockman in his most recent television appearance. I'm afraid that his attitude reflects that of our current administration. We are not "high rollers" who made bad judgement calls through expansion as he indicated. We are merely trying to react to the many changes in Government policies over the last several years. If the proposed cuts are made in the Department of Agriculture's policy, I expect the effect to be a chain reaction that will cause unprecedented farm and bank failures.

My recommendation for the short term is to restrain the Regulators, continue the existing farm program with price supports, and get the Farm Home Administration out of the loan business and make them the guaranteeing agency. To compete on the world market, we must have a devalued dollar or subsidized prices.

The loan guarantee program offered by the administration is a farce. While we need protection, I cannot see an agricultural bank forgive 10% of the principal or reduce interest rates and maintain capital requirements. Most of our customers are in the same financial condition to some degree and I would be duty bound not to discriminate on the terms of our loans.

I would suggest the government issue banks some type of instrument whereby banks would pay the same amount of interest which is being charged for the guaranteed loans. This would create new liquidity for the long term low interest work out.

All of the above are merely bandaids to our problems. We must get rid of our surplus before we can ever expect prices to increase. We would need a strong commitment from the State Department and Department of Agriculture to not use cheap food as a political tool. If the Reagan people truly want our products to be market oriented, I would suggest one year of heavily subsidized zero crop plantings. This would eliminate our surplus and with strict acreage allotments and no more embargos, should make the farmer totally self-supporting.

We are most appreciative of the tireless effort you are making on our behalf and I pledge to you my continued support.

Sincerely,

Dale Ledbetter, *Chairman-President.*

Statement of Richard A. Lee, Guymon, OK

Equity for most farmers is eroding at an alarming rate. Inflation, the "boon to farmers in the 60's and 70's" has turned to deflation in the 80's. Land and equipment are deflating in value at an increasing rate while liabilities, including interest, and operating debts are increasing. Deflated assets and increased liabilities are the "double edged sword" that is slicing many farmers' equity to the point of insolvency. Farm advisors predict a mass liquidation of farmers within the next three years.

Farmers that have debt exceeding 30% to 40% of their assets, given today's farm prices, are operating at a loss. Their operating losses, coupled with the deflated value of their assets, are building up a "head of steam" that may be impossible to stop.

Farmers operate in a "Free Market System" and they have relied on government controls for economic survival. The elimination of these controls over a short time would devastate farmers, banks, and small business which could lead to total economic collapse in America.

The federal government is now paying the American farmer $9.3 billion in subsidies. This total amount represents a cost of only a .03% increase to the consumer's food dollar and still insures him of a continual cheap food source. If this same budget were redirected into a "Land Retirement" based program rather than cut, it would ultimately save the government and the consumer more than it would cost.

Agriculture needs dedicated policy makers that have the foresight and courage to make long term commitments that will increase income for the agricultural community. One economic fact, that seems to be overlooked by agricultural policy makers, is that farmers will increase planted acres as the price and profits decrease. Farmers will increase planting as long as they can recover their variable costs. For example, the variable cost to produce wheat varies from $2.00/bu. to $3.50/bu. This covers the cost of fuel, labor, seed, fertilizer, spraying, repairs, and harvest. As long as all of these costs are recovered, farmers will produce. As the spread between variable costs and the total cost of production narrows, farmers have an incentive to increase plantings to recover more of the fixed costs.

Fixed costs, such as interest on land, equipment, taxes, and depreciation remain the same, whether or not a farmer produces. Farmers have not been recovering all fixed costs in the last few years. Equities have decreased, causing farmers to plant more acres of marginal land in order to meet increasing debt payments.

John Block, on December 9, 1982, announced to the Senate Agri-Committee that over production is the most serious problem in agriculture. He also stated, and I quote, "we cannot compromise the future of our farmers with short sighted quick fixes".

I contend that the USDA has continued to dwell on the short term reduction in planted acres, while ignoring the critical issue. That issue is the fact that the United States has a capacity to over-produce that is unchallenged by all other countries. In continuing to use short term reductions in production to increase price, we ignore the fact that once prices increase, farmers will again increase plantings and production to levels above the amount that can be absorbed by domestic and export markets. We then start the "roller coaster" ride all over again.

Conservation is another issue that is largely being ignored. We must recognize the dangers of abusing our soils with production practices that stress short term gains. Long term economic growth and preservation of land resources must be considered with utmost importance.

Today, Congress and the Administration are facing the enormous task of reducing government spending and trying to regain the profitability of agriculture. They must give consideration to cost effective measures that will produce benefits for more than one year. The government payments, that have been used for a short term reduction in production, can be utilized in a Land Retirement program to produce a long term reduction in production.

Long Term Land Retirement is more cost effective than the present short term land diversion programs. Long Term Land Retirement can stop the serious erosion of our nation's soil and protect it for the future. In the past, farmers have not intentionally caused land erosion. Because of present economic conditions, many farmers have been forced to maximize all returns, regardless of the consequences to the land. A Land Retirement can reverse this trend.

Subsidies to Agriculture are some of the most cost effective programs in America. A revision in the methods of subsidy is needed. However, a reduction in total subsidies at a time when American Agriculture is in the throes of economic disaster, can not be tolerated. Subsidy plans, that integrate long term reduction of surplus production, must be combined with short term subsidies that reduce production.

Long term land retirement should be the "corner stone" of the farm program Massive retirement of marginal lands will have long term benefits to the nation, aside from its cost effectiveness. Future government payments for short term, subsidies could then be reduced and eventually eliminated, once a large enough acreage has been retired.

SUMMARY

Today's agriculture problems include over-production, the strong U.S. dollar, and high interest rates. Agricultural Policy makers must recognize that farmers are facing the most difficult economic climate since the Great Depression. They must not stop with the success of past programs, but they must be challenged to initiate cost effective solutions that utilize today's assets. The 1985 farm program must, above all, insure the economic survival of the farm community.

Policy makers should include "Long Term Land Retirement" as the base for the 1985 Farm Bill.

STATEMENT OF DALE L. LIVELY, SHARON, OK

MINIMUM PRICE LAW

Both Oklahoma Farmers Union and National Farmers Union have adopted the following resolution for the past two years at their conventions for wheat and feedgrains: "We support a minimum price law by Congress based upon 90 percent of parity by use of marketing certificates." This program could be implemented by the government at a very small cost. The USDA already has the records and personnel in the ASCS to implement the program.

Basically, the minimum price on all basic storable commodities concept would require Congress to legislate a minimum price equal to 90% of parity as determined by the USDA under present parity criteria (the 1938 law). The law would simply state that it would be illegal to buy or sell any of these commodities at prices less than those established by law. It would work very similar to the minimum wage law, which requires that no one may be employed for less than a minimum hourly wage as established by law. The minimum price law would not require buyers of agriculture commodities to purchase every available bushel or pound of a commodity. However, the buyer would be required to pay at least the minimum price established by law for those commodities bought.

Violation of the minimum wage law is punished by a stiff fine. Violations of the minimum price law should also be punishable by a stiff fine.

The law would require that a national base for each commodity be established. Each producer would be issued his share of the marketing certificates, based on his farms past acreage and production history. The national production would be figured each year, by totaling the average domestic needs, export needs and a national emergency reserve. The national production base would be established each year. If the stocks on hand drop below the national production base, the producers share of the marketing certificates would increase.

A producer could produce all he wants to produce, however he could market only that amount equal to his share of the marketing certificates. What happens if he overproduces? He must bear the expense and responsibility of storing that overproduction, isolating it from the market until next year or when he does have marketing certificates available. Each producer would produce the number of bushels, based on his share of marketing certificates and he will receive a fair price for that product which he sells. The certificates could be negotiable allowing a person who had an overproduction to transfer certificates from a person who had a crop failure. This availability would prevent a shortage from developing, keeping the supply adequate for the buyers and stabilize prices.

The role of the government in the program would be to establish the national production base (this information is already available from ASCS records) and to investigate complaints of violations of the minimum price law.

The effect on the national economy would more than offset any minor adjustments in food costs. Demand for all manufactured items would increase immediately, generating hundreds of thousands more jobs for our unemployed. Government revenues would increase, reflecting less demand for borrowed money by the government, and lowering the huge national deficit. Earned income would replace borrowed money, thus lowering the interest rates. This approach to solving the economic problems of our nation's farmers would be effective in solving the economic problems of labor, industry and the federal government.

STATEMENT OF ED LONG, GARBER, OK

We Oklahoma wheat producers do not want Government subsidies. We prefer a free market concept, but today there is no free market. As long as the EEC pays their farmers $6 to $7 a bushel for wheat and sell it on the world market for $3.25 per bushel the American grain merchants can never be competitive. Even at a U.S. loan price of $2 per bushel, the EEC can underbid us if their governments so desire.

The stand off is, whose budget can take it the longest? The budgets of EEC or the individual U.S. farmers' budget?

A two price program or preferably a mandatory partial reduction, with no payment to the producer, but instead an export subsidy, where the U.S. Government budget, not the U.S. farmer's budget, is put on the line against the EEC. It is time for this administration to quit playing games with heartland America. Our government must make a commitment to fight fire with fire. President Reagan must have the courage to say to the world, "boys, sit back, you are not going to steal our markets any longer, only then will we recapture our historic markets," and Rural

America will recover, banks will recover, all of agriculture's suppliers will recover and many times more taxes will be paid over the cost of these export subsidies. I know there are great risks involved, but so were there, when a former Great American President told Russia, "Do not let your ships break the blockade line to Cuba!" It is time for President Reagan to stand tall and say to the world "America is going to get back into the exporting business." Historically, as American farmers have cut back acreage, the rest of the world increases. The other countries must cut back and only through export subsidies can the United States get the world markets, empty our granaries and make the EEC granaries overflow. When this happens America will have won the war and the exporting of agriculture crops instead of America's jobs, will begin again.

Senator, I appreciate your stand on asking for a balanced budget amendment. I appreciated the President asking the Congress to pass it, but I do not appreciate his open hypocrisy of sending to Congress a budget that is not balanced. His exorbitant National debt is going to drown us all. I appreciate strong defense, but the budget suggested for defense is beyond reason. It is great for the United States to be the World's Super Power, but I think of words said by the Psalmist "What does it gain a man to gain the world and lose his soul."

Today, I believe we can say, "What does it gain the United States to develop the world's strongest arsenal and in the process loose rural America, the worlds greatest exporter of food that feeds a starving world. This is a policy of insanity, not one of good economics based on Christian love and understanding.

This Administration's policies have cost we American farmers the highest true interest rates ever! Four years ago I was paying 10.75 percent interest on our farm loan. Owing $120,000 on a 160-acre farm valued at $240,000, cost us $12,900. The land appreciated 12 percent or $28,800 for a net value gain of $15,900 over interest cost or a true net worth gain of 6.6 percent.

Today that farm is worth no more than $150,000 and we still owe $117,000. The current interest rate of 11.75 percent makes our annual interest payment $13,747, but with and 8 percent devaluation of $12,000 it makes a net worth loss for us of $25,747 or 17.16 percent. This makes a true honest 23.76 percent greater interest cost today than 4 years ago.

Agriculture cannot stand 4 more years of this current great prosperity of which our President speaks. Never in the history of America have rural land values deflated at such disastrous rates as the past four years. The current agriculture policies have been ineffective and I fear this administration has a definite intent to descriminate against rural America.

I have heard Congressman English say, "It is inequitable for a 2 percent minority of Americans to be asked to take 10 percent of the budget cuts. I believe there is an unique parallel comparing agricultures needs today with an Old Testament story. When the Philistine army was making war against the Israeli army a Great Big Philistine Giant named Goliath would come out and scared all the Israeli soldiers away. There was one courageous Israeli shepard boy named David who fought lions and bears with a stick while protecting his fathers flock. David was very intelligent, articulate, and well trained. All by himself he confronted Goliath and with one smooth stone and a slingshot he fell the Giant.

Today we are in a battle for our lives and the very existence of the family farmer. We need a courageous David to lead us in this battle. Senator Boren, you are that David.

HOOKER, OK.

DEAR SENATOR BOREN: My name is Stanley McKinley. I am 52 years old and my wife and I operate the farm my father homesteaded.

I appreciate the opportunity for input on the hearing at the field level like this.

The critical national emergency that exists in agriculture and its credit system is now well identified and accepted

The cause is not the currency differential, the budget deficit, high interest rates, inefficiency or competition. The cause is low farm prices. A situation where the selling price is less than the cost of production has existed long enough for the farm equity to be borrowed up. It is that simple.

The solution is equally simple. The Federal government must reassume its responsibility to stabilize and protect America's basic industry. The food producing machine must be managed and the government is the only entity that can do it.

To phase out government involvement in agriculture and let the chips fall where they may and let the consumer hope for the best would be unconscionable. You would not think of doing away with an organized military and depend on individual patriots to defend the country.

The cheap food policy of underpricing the nation's annually renewable new wealth has brought agriculture and the nation's economy to the brink of disaster. It must be abandoned. Contemporary economists seem to have been all taught in the same school. They should study history.

The Steagall amendment, in 1942, which specified loan rates at 90% of parity, was attached to the defence act, not as a farm program, but as an economic measure to assure the nation earned income to finance the war effort. It worked. All segments prospered and public and private debt was minimal.

A farm program designed to bring farm prices up to parity would stimulate a genuine economic recovery and get this country moving like you never saw before. Interest rates would collapse.

My specific farm program recommendations:

1. Eliminate all subsidies, including deficiency, diversion and storage payments and terminate the farmer owned grain reserve.

2. Any strategic reserve of food or fibre to be owned and stored by the government.

3. Mandatory production management of surplus crops: a. approved by majority producer referendum; b. production level computed to achieve a carryover low enough to move market price to 90% of parity; and c. set-aside with no payment equal to base acreage reduction.

4. Non-recourse loans at national average tenants cost of production; a. loan repayments credited back to offset CCC cost.

5. Non-compliance could be penalized by loss of loan eligibility and loss of any ASC or SCS benefits and loss of acreage base for present or future programs.

This program would raise the world price of commodities, The economic recovery would be extended to Canada, Australia, Argentina and all countries with an agriculture base. The intense pressure to increase production would be relieved. The ability to repay loans would be enhanced. Interest rates would fall and standards of living would rise.

Respectively yours,

STANLEY MCKINLEY.

STATEMENT OF W. NELSON PENDERGRASS

I'm here to talk about America's most vital resource—food.

What do we farmers and ranchers need? Within the answer to this question lies the answer to what America needs!

1. We farmers and ranchers need a new marketing system! That system would: a. provide a continuing abundant food supply for our people with a great bounty to share with a needy world. b. Provide a reasonable return on investment in land and labor, similar to the position our utilities now enjoy.

To accomplish this goal the Department of Agriculture would become the Agriculture Commission. In addition to being responsible for providing the above A and B, the Agriculture Commission would be responsible for the conservation of our soil. Most other Agriculture Department functions would be moved to other departments. We would no longer pay anyone to not produce!

2. We need an adequate, stable, sustained level of credit with rates in single digits, that is, below 10 percent. Farming and ranching calls for a lifetime commitment and planning. Roller coaster interest may serve speculators well, but do havoc to farmers and ranchers as well as small businessmen, independent oil operators, builders and other areas of our economy.

The present American agriculture story is very similar to stories we hear of good marriages on the rocks. Everyone knows that a successful marriage evolves when a compatible man and woman come together as one adhering strictly to their sacred vows of devotion to one another.

The United States of America needed and was blessed with such a union between the financial community and our farmers and ranchers. Out of this marriage was begat the best fed, the best clothed people the world has ever known. Agriculture's partner, the financial community, has begun to break the vows of our relationship. She has started selling herself to the highest bidder! Our marriage is strained, as the financial community harbors contempt for our feelings. Our neighbors regard us as foolish for going to bed with such a one who shows such total disdain for the vows that made our union so profitable. Our children are perplexed. They back away from such a one as would deny them the opportunity to continue the family tradition of food production. Many are unable to dream the American dream of home ownership. History tells us this union has had its ups and downs. However, the stress periods have always been overcome, probably due in large part by action of a very concerned Uncle Sam. Although our Government is preoccupied with other problems, it must move quickly and forcefully to head off the disaster unfolding before us. We need emergency legislation.

For more than a quarter of a century, as my wife and I struggled to get established as a family farm, the banking industry supplied our credit needs at rates from 5 to 7 percent. Many times we were thankful for our off-the-farm jobs which allowed us to pursue our dream. We knew at times we subsidized not only our cattle operation but someones grocery bill because of low prices; 18 hour days were quite common.

It must have been about 1976 when America was celebrating her 200th anniversary when the idea was conceived. I suspect the devil in hell sent our Nation an anniversary gift. It was called variable interest rates. A disaster looking for a place to happen is what I labeled that gift. If variable interest rates are not bridled or eliminated altogether history will record this as the one most devastating element contributing to our economic failure.

Economic planning in agriculture calls for counting the cost. If one of those costs is interest, how can you count it when it refuses to stand still?

A further comment, recently I've heard two things I should share with you. 1. A few years ago it was said that Ethiopia would become the bread basket of Africa. The debate with the highest priority today in Ethiopia I'm sure is not the energy crisis, higher teacher's pay etc., and these things are important. Let me remind you, if there is insufficient food all other problems pale in importance.

2. It was reported recently Cargill Grain Company, one of our large grain companies has asked permission to import wheat which they say will save about 35 cents a bushel. I recall many years ago the oil companies told us of the advantages of importing oil. When we became dependent on foreign sources the oil cartel nailed us to the wall. We're still feeling the effects of that dramatic increase in energy costs. Do we want the same experience with food, say $10 a pound hamburger and $8 a loaf of bread? In summary, America needs an Agriculture Commission to assure a plentiful supply of our most vital resource—food. Government action must move immediately to lower interest rates to two (2) points above the T-bill rate with a 10 percent ceiling. Farmers and ranchers need a moratorium on foreclosures. A credit toward principal owed of all interest charges paid in excess of 10 percent during the past 5 years.

Our ranching operation includes one of the most efficient protein producing units in the United States—A 315 acres turkey-cattle ranch in Delaware County producing more than 2,000 pounds of live turkeys. Many tons of beef were being produced when Vinita PCA arbitrarily refused to renew our operating loan. We have miraculously survived this ill-advised move by taking off the farm work and prematurely selling our Tulsa county property.

STATEMENT OF BRUCE PRICE, HINTON, OK

My name is Bruce Price. I am a farmer, 42 years old, from Hinton, Oklahoma. I have farmed here for fourteen years. I hold a BS degree in agronomy from Oklahoma State University (1965). Last year we grew and shipped approximately 25 percent of Oklahoma's potatoes and approximately 12 percent of the State's watermelons. We also produced 100 percent of Oklahoma's seedless watermelon seed!

Upon my return from a job in Washington, D.C. 14 years ago we started expanding production of watermelons, branched into potatoes shortly after this, built a potato packing shed, bought a registered polled hereford herd, modernized our machinery, tractors and trucks, and purchased farm land. The name of the game seemed to be expansion, diversification, and modernization. Our expansion depended heavily on credit, and we stretched our resources as far as they could go. We had good profit margins and an excellent track record of debt service. When high interest rates on our short term debt began to be a burden, we started looking for ways to stretch our debts over longer periods and searched for lower interest rates. We shifted what we could to real estate. This would probably have been a workable plan had it not been for variable interest rates, extreme increases in input costs, lower commodity prices and disastrous weather. We then made the painful decision to sell our registered polled hereford herd. Total receipts from the auction sale paid our interest costs for the year with no reduction in principle and with less collateral on the books.

We then added to our debt by borrowing operating money using our real estate and machinery as collateral. Again we experienced another year of unfavorable weather, low prices, high interest rates and increased input costs.

We applied for an economic emergency loan with FmHA, USDA in December 1983 and went through the delays and committee meetings until we were told that all moneys were exhausted. We ultimately changed our application and went through committee approval three times (which meets once per month-maybe). We considered simultaneously selling assets and proceeded to schedule an auction sale for real estate and selected machinery. Planting time came and went while we were waiting for approval from the local FmHA office. Finally and reluctantly and upon urging from others I called Senator Nickles' and Congressman English's offices for assistance. This was in late May and past optimum planting time. Three days after we called approval on our application was given and we proceeded to plant.

An auction sale was held September 15, 1984 to sell an 80 acre peanut farm which had cost $109,000. We placed a floor bid on the land of $80,000 and did not get a bid. Approximately $120,000 worth of tractors, trucks, irrigation equipment, livestock equipment, and hay equipment, brought just under $40,000 after sale expenses.

Due to the late approval date, and subsequent bad timing our crop receipts suffered in two ways; (1) marketing was delayed until prices had already taken their seasonal drop, and (2) irrigation schedules overlapped our landlords peanut watering schedules which resulted in many melons not receiving adequate water at critical times. Irregardless of this the crop still made money over production expenses, until interest costs on our debt was taken out, which resulted in the inability to completely clear the guaranteed operating loan for 1984. Because of this the FmHA has indicated they will not consider another application for 1985. Our chances for finding operating moneys are running rather slim. Plans are under way for selling real estate if a buyer can be located at all. Buyers are not numerous because land values are still dropping and at the present time several thousand acres of prime farm land is for sale in Northern Caddo, County. The cheapest and quickest way for us would be to declare bankruptcy, and I would, except I wasn't raised that way. I still owe the money and will do what ever I can to get the debts paid, if God allows the opportunity.

As for advice I do not feel qualified to offer much except to share what might have been helpful to me:

(1) Actions that will streamline and odernize, FmHA procedures.

(2) Actions that will stabilize real estate and machinery values at realistic levels.

(3) Actions that will reduce interest rates.

(4) Actions that will reduce costs or raise prices for our products or that will stimulate more sales in order that we might be able to earn a sufficient margin with which to service debt.

It seems that American agriculture is in for some drastic changes and the direction it is taking unless prevented by immediate congressional action, may result in large, vertically integrated, agro-complexes, which will not only produce raw agriculture products, but will process and manufacture them into finished food and other consumer goods, and many will sell direct to the public in their own retail outlets, completely eliminating all the wasteful practices of freight, multiple handling, middleman markup, union wages, boards of trade, Government programs, etc. With such control these entities will be able to compete with the competition and probably not be inclined to pass any savings on to the consumer. This may not come to pass if the American consumer can refrain from eating food, wearing clothes, and living in houses. At the least it appears more than likely the American consumer will pay more than 17 percent of take home pay which they now enjoy and complain about.

RICKETS CROP INSURANCE AGENCY,
Marietta, OK.

Hon. DAVID BOREN,
U.S. Senator.

DEAR SENATOR BOREN: The industry of agriculture is facing a very difficult period. My letter will address two areas of concern. Number one is agriculture in general and number two is the peanut industry. I am a peanut and wheat farmer, and sell Federal Crop Insurance on a part time basis. Agriculture is in a position which it does not deserve, over which it has no control and possibly will not survive unless attitudes and policies in the Department of Agriculture are reversed.

Farmers cannot control most of the factors which have placed them in an economic position worse than the great depression. The loss of foreign markets caused by the high value of the U.S. dollar and past embargoes, the high interest rates in a time of low inflation brought about by huge deficit spending, high input expense for all crops and low prices for farm products have combined to put a large number of farmers in a position which is unbearable. During the past two years when the rest of the economy was prospering, the farm sector was in agony because of the problems above. These things are beyond the farmers' control, but will be the reason for the collapse of the family farm as we now know it. If these problems are not corrected, all farmers who continue to operate will go under in another few years.

At a time when farmers are barely surviving, the Department of Agriculture and the Administration are saying we brought it on ourselves by foolish spending for land and equipment, that we must bear the brunt of reduced federal spending and that only a small per cent of farmers are in trouble. If spending cuts which are proposed for agriculture are put in place, we will not survive.

The family farm is in danger of becoming extinct if the country does not wake up to the fact that it is in dire circumstances which cannot continue. It appears the administration wants to push us under for the third time.

The market clearing price theory and free market concept are idealistic, but in fact will be the last straw for the family farm.

The policies of the Federal Government during the past six years have put the farmer where he is now. Their actions can now help put the farmer in a position where he can survive the next few years, but it will require an investment. But our industry is worth saving and worth the investment, for it will cost far less to save our industry than to rebuild it from the ground up after a complete collapse.

Some actions which would help us survive are:

1. Reduce the deficit to zero in four years. This would help exports and reduce interest rates by making more funds available to the private economy.
2. Use export subsidies and better terms of financing to increase our export market.
3. Continue present target prices and loans for farm products, but freeze at present levels for two years to hold down costs to an acceptable level. Then review in two years for increases if needed.
4. Provide an interest cost subsidy for farmers with dept problems to hold their effective rate of interest to nine percent.
5. Stop blaming farmers for the depressed agriculture economy when they have no control over the problem. The peanut farmers have done a good job in providing good supplies at a reasonable price for the domestic and foreign market. We have reduced costs to the government to almost zero, and have made enough profit to stay in business. The present program should be continued with minor refinements because it is working. The complaints against us are idealistic but not very pragmatic. If we were put on a so called free market, we would be at the mercy of the manufacturers because of the perishable nature of our product, and the fact that we cannot store peanuts.

Our industry would be destroyed and consumers would be going through periods of surplus and scarcity with no stability in prices. Stability in income for farmers and dependable supplies with reasonable prices for consumers would be a thing of the past.

It would be unfair to our communities and farmers which depend on peanuts for survival to move the industry to areas which would have lower costs for a few years until disease problems caused costs to be equalized. This temporary advantage to the consumer would not be worth the disaster created by destroying the present system.

This is one program which is working at no cost to the government, which is providing a good product to our consumers at a reasonable cost and which should be continued.

Sincerely,

ARTHUR RICKETS.

STATEMENT OF ROBERT ROBBINS, PRESIDENT, OKLAHOMA COTTON IMPROVEMENT ASSOCIATION

I am Robert Robbins, President of the Oklahoma Cotton Improvement Association. Four years ago I would never have believed that I would say to you, or anyone else, what I am about to say now. Senator, how can I sell cotton to foreign countries with the devastating, strong dollar monetary policy we have in place. The sale of a pound of cotton in the U.S. averaged 62.4 cents while my counterpart in Australia received an average of 90 cents for his pound of cotton. The amazing thing about it was that it didn't cost the Japanese one extra yen for the 90 cent pound of Austrailian cotton, as compared to the 62.4 cent per pound for American cotton.

Senator, what good will it do to lower the loan rate 10 or 20 percent on cotton or any other agricultural commodity to make us more competitive in the World Market, if the value of the dollar continues to climb. In the meantime we will have broken 95 percent of the cotton farmers, and all the Production Credit Associations, Federal Land Banks, and rural agricultural banks in America.

Senator, a large segment of the population of the United States believes that the 1981 Agriculture Act is a great failure and that it is the cause of our "great dilema" today. That is like saying that an in-grown toe nail causes me to have to have open heart surgery. What really failed us was the Fiscal Policy of President Reagan and others who didn't have the courage to freeze all spending at levels that would have kept us from having the devastating strong dollar we have today.

Senator, the 1981 Agricultural Act is a good one for the cotton farmer as well as other commodity groups. It has only one problem that needs to be changed and that is the 50,000 dollar limit of payment. I farm about 2,000 acres of cotton on land which is rented from retired farmers or their widows. These people range from 70 to 90 years of age and have to live off of Social Security and the income from this land. They need for me to be in the Farm Program because it works like an insurance program for them with the Target Price Money coming to them. I planted 450 acres of wheat on my part of the set-aside last year because I could not draw my benefits due to the limitation of payments. This 450 acres of wheat helps drive down the wheat prices which in turn costs the government more money in wheat Target Support Money. You can see that the limitation of payment really didn't save the taxpayer any money, and if you change the program so that I am forced out of it, then you affect 15 elderly people who could experience some very devastating problems as a result.

Senator, I believe an all-out assault should be made on reducing the Federal Budget Deficit. Why not freeze all of the Federal Budget at the 1985 level, as you did Agriculture at the 1984 level.

In my opinion, the situation is serious enough that the Federal Reserve Board should immediately intervene by selling dollars in the Foreign Exchange Market to help get the value of the dollar down and keep it down. Also, it is my opinion that the Federal Budget's deficits, high interest rates, and a strong dollar have severely injured American Agriculture and now President Reagan's 1985 Agriculture Act will cut it's jugular vein. I know you aren't responsible for the mess we are in but, Senator I believe you and other Senate and House Members from Agricultural states need to form a coalition with Senate and House members from Manufacturing states to save agriculture and manufacturing from the un-realistic high dollar.

THE DEVASTATING STRONG DOLLAR

CURRENT EVENT TOPIC FOR CALCOT'S 1985 FAR WESTERN COTTON CONFERENCES

(By Thomas W. Smith [1])

The United States raw cotton industry and the U. S. textile industry have a common problem—both are being devastated by the super strong dollar and very few people in Washington seem very concerned about the life and death struggle in which we are engaged.

In fact, some top government officials actually cite advantages the strength of the dollar has given American buyers in the world marketplace, thus allowing a higher standard of living than otherwise justified. They point out the dollar's rise over the past four years has slowed the general increase in the level of consumer prices and lowered the current rate of inflation. Martin Feldstein, the former Chairman of the President's Council of Economic Advisers, in a recent article pointed out, "The principal benefit of the strong dollar has been an increased capital inflow from abroad." He goes on to say that our enlarged trade deficit has to be paid for, and only a small fraction of it can be financed by our exports of services and by earnings on our net overseas investments. Feldstein says, "The rest of the trade deficit has to be financed by a net inflow of capital to the U.S."

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[1] Thomas W. Smith is President of Calcot, Ltd., a cotton marketing cooperative servicing the marketing needs of 3,500 cotton growers in the states of Arizona, California, and Nevada. Information was presented to 270 textile executives at Far Western Cotton Conferences held during the week of January 7, 1985, at Callaway Gardens, Georgia; Read House Hotel, Chattanooga, Tennessee; Piedmont Club, Spartanburg, South Carolina; Greensboro Country Club, Greensboro, North Carolina; Holiday Inn-Airport, Charlotte, North Carolina; and The Metropolitan Club, New York, New York.

I wonder if Mr. Feldstein ever stopped to think that if the dollar had not gotten so strong, we would not have imported all the cars, textiles, steel, wine, etc., that we have. In fact, if the strong dollar had not made foreign product prices so cheap, we could have manufactured these same products in the U.S., providing jobs for U.S. citizens. If this had been the case, coupled with normal exports of agricultural products at normal prices, we would not have increased the trade deficit from some $25 billion to over $125 billion, and the budget deficit, instead of being over $200 billion, might have stayed in the $40 to $60 billion range. After all, increased employment would have lowered government spending on unemployment benefits, and normal agricultural prices would have kept farm program costs down—and in turn, additional revenue would have been generated from taxes collected from additional employees working, additional manufacturing plants running, and farmers selling their products at profitable prices instead of the below-cost prices that have been necessary to offset the increased dollar value in overseas markets.

Obviously, the strong dollar is not just affecting cotton growers and textiles. Its negative impact is being felt by all of agriculture, and by practically every phase of U.S. manufacturing.

The only difference between agriculture and manufacturing, as far as the strong dollar is concerned, focuses on the issue of price. If textile prices go below cost of production, you close down plants. The same is true for other manufacturing industries. Unfortunately, some of your plants (and plants in other industries) have closed permanently. This production has moved overseas and may never come back to the United States. In the case of agriculture, the plant can't be closed down; therefore, production has to be sold at whatever price it will bring because the risk of storing products in a period of uncertainty is just too great. Due to the high fixed cost in land (obviously since land can't be moved), U.S. agricultural production won't go overseas. Unfortunately, we will see different people doing the production because many producers won't survive the current situation.

In the case of cotton, we have taken a triple whammy from the strong dollar:

1. Cotton prices have dropped about the same amount as the dollar has increased. This has been necessary to sell cotton in foreign markets. Lower prices are the major reason U.S. export sales have been so strong. Another reason for strong exports is that freight rates, particularly to the Far East, have dropped dramatically. Ironically, the reason for the drop is because so many container ships are being loaded with goods coming into the U.S., and with the small amount of U.S. exports, many containers are being returned empty. Shipping lines are competing for anything to generate some revenue on containers returning to the Far East. Currently we have the lowest freight cost for shipping cotton to the Far East in over 30 years. Rates are about one-third of the cost for us to ship cotton to your textile plants.

2. The second whammy we have taken is the net loss of over 2½ million bales of our traditional domestic market due to the additional imports of textiles and apparel. You know the story only too well, and if these imports continue to increase, cotton's market loss will continue to increase.

3. The third and most damaging factor to cotton prices in the long run is the advantage the strong dollar is giving to foreign cotton growers. They are increasing plantings because cotton prices in terms of their currency have not declined. Past experience tells us that once foreign cotton production is developed, it won't go away quickly.

I am sure you are asking, just as we are, how we got into this intolerable situation. From my perspective, it has been a case of too many people trying to go in different directions with U.S. economic policy. The Department of the Treasury and President Reagan held strong opinions that personal income tax rate reductions, with limits on the growth of federal spending, would stimulate economic activity to the extent that additional taxes would be generated and eventually the deficits would be eliminated. But key White House staff members, the Office of Management and Budget, and the Council of Economic Advisers at times did not share this view and, with the strong commitments made to increase defense spending, thought tax increases were the only way the budget deficits could be covered. The Federal Reserve Board generally thought the tax cuts would produce large budget deficits and saw their role as keeping a tight grip on the nation's money supply in order to prevent inflation. The result has been economic chaos brought about by high real interest rates which have made the dollar super strong. U.S. agriculture and manufacturing industries have to bear the brunt of the Administration's failure to coordinate economic policy.

This failure also comprises a real threat to the world financial system. Many leading economists state that as prices come down in oil and commodities, it creates financial pressures on the lesser developed countries, making them unable to pay back their debts which will threaten the entire U.S. economy. They point out it will be necessary to get the dollar down in order to assure U.S. economic expansion. The strong dollar is serving as a barrier to re-energizing the U.S. economy. If changes are not made soon, the world could succumb to the deflation threat.

However, very few in Washington seem too concerned; the general response is that agriculture and manufacturing need to increase productivity to compete in world markets. I won't repeat my response when I hear the "increase productivity" cry, but I would like to point out that: American agriculture has increased its output more than 60 percent since 1950, and productivity per hour worked has increased more than three times faster than industrial productivity per hour worked. A recent Citicorp study of 11 developed countries manufacturing productivity and labor cost from 1980 to 1983 shows that seven of the countries would have lost competitive ground against U.S. exports until foreign unit labor costs were expressed in U.S. dollars. Then all showed substantial competitive gains against the U.S. Actually, textile productivity in the U.S. has increased even faster than manufacturing in general due to the over $1 billion per year the industry has spent over the past two decades on state-of-the-art machinery.

The "you must increase productivity" slogan just doesn't wash with either U.S. agriculture or U.S. manufacturing, and particularly the U.S. textile industry. The plain fact is that due to the super strong dollar, U.S. agriculture and manufacturing industries are spotting competition a 40 percent head start in a competitive race, and that is just too much of a head start to make up with increased productivity. Even James Flanigan, an economics writer for "The Los Angeles Times" who tries to make the case that a strong dollar helps more than a weak one, admits that, "U.S. manufacturers are up against it trying to complete with foreign goods in this market, to say nothing of export markets, and U.S. farmers, their output priced out of foreign markets by the strength of the dollar, must continue to rely on U.S. Government subsidies." That is quite an admission for someone who thinks the U.S. economy is better off with a strong dollar.

I don't think I have to go further to convince you that cotton growers and textile mills are in the same boat. We are in the economic river filled with strong dollar currents and the deflation falls are just ahead. What can we do to change the situation?

Our government has already demonstrated it is not going to listen to concerns expressed by just one industry. You have found that out. So have steel, copper, shoes, wine, and many other industries. I am not sure this Administration will ever move to install restrictions strong enough to effectively limit imports as long as the dollar is as strong as it is. I applaud your efforts to get more realistic country-of-origin rules imposed. Your "Crafted With Pride" campaign is certainly a step in the right direction. However, the strong dollar is just like a huge magnet hovering over the entire. United States. It tends to pull everything in and tries not to let anything out. In my opinion, both of our industries are headed for disaster unless something is done soon to change the situation.

I strongly believe that U.S. manufacturing and agriculture should form a coalition with the sole purpose of getting the dollar back to a realistic value. The National Council of Farmer Cooperatives has already started bringing together a number of agricultural organizations and has called on the President to establish a special bipartisan commission to develop a consensus for reducing the federal budget deficit. I would like to see someone get U.S. manufacturing groups together to join forces with agriculture to get the message across that the strong dollar is a serious threat to the entire U.S. economy.

I recognize that some economists will point out there isn't evidence of a direct link between large federal budget deficits, high interest rates, and a strong dollar. I will not argue that point, but as long as Paul Volcker is Chairman of the Federal Reserve Board, the argument is a moot one because he has already demonstrated he will keep a tight reign on the money supply as long as we have a large budget deficit, in order to control inflation. I can argue that a tight money supply coupled with low inflation does tend to keep real interest rates high, and high real interest rates do tend to keep the dollar abnormally strong.

Therefore, I believe an all-out assault should be made on reducing the federal budget deficit. This should be made with both the Administration and Congress.

In my opinion, the situation is serious enough that the Federal Reserve Board should immediately intervene by selling dollars in foreign exchange markets to help get the value of the dollar down and keep it down. The only problem I have is finding a way to lobby the Federal Reserve Board to do this. If you have any ideas on how this could be accomplished, please let me know. Our economic health depends upon getting changes made. I hope you will join in the effort to bring about the necessary change.

STATEMENT OF JOE SHIRLEY, WHEAT FARMER, WOODS COUNTY, OK

The American farm economy has traditionally been the backbone of the entire American economy. However, because of past and current economic and foreign policies the entire structure of our American way of farm life is being devastated. Bankruptcies and bank failures in the farm sector of our economy has reached unpresidented levels. Bankruptcies in Woods Co. Oklahoma where I am from are higher now than they have ever been. I must emphasize and plead that in my opinion, short term, stop-gap, bandaid type credit programs are not the answer. While they may help some in the short run, they will not remedy the underlying causes of our problems. We must in some way begin to generate an improvement in farm income.

While no American farmer likes the idea of farm subsidies, until we can regain markets that we have lost through embargoes and deteriorating foreign economies, because of inflation, and the strength of our dollar; we must depend upon them to stabilize and forestall certain disasters.

A simple extension for two years of the current farm program and more extensive use of export credit plans already in place can go far in reaching the goal of a deregulated farm economy. It is my feeling that we must have target price protection. It is also very important for the farmers in our state to be able to hay and graze our set-aside acres.

We must do all we can to inform and educate our uneducated USDA members. For example, Milton J. Hertz, USDA, ASCS in a statement before the Oklahoma Crop Improvement Association on Friday stated that he believed that if Block and Stockman's Program was approved, the EEC and other heavily subsidized foreign grain producing countries would go broke before the American farmer. In my opinion, that statement shows that the bureaucracy in charge of USDA have no real concept of how grain trade between nations of the world exist together.

I think that we must learn to work within the environment in which we live. We must learn to work with and around the strong dollar and heavy subsidication of foreign grain producers by their governments. These things are a fact of life and we must implement programs that will counteract these forces on our market. For example, high interest rates and the overvalued dollar have left many of our best wheat customers unable to buy the grain they need. A long term effort is required to correct this situation. However, the current problems facing farmers need immediate attention. Fortunately we have programs which can help now if Congress will authorize them.

The GSM-301 intermediate term credit guarantee program must be implemented. Allining countries to utilize 5 to 10 year credit will give them a chance to buy the wheat they desperately need today. The longer term credit will enable importing countries to upgrade their storage and handling facilities. Furthermore, loans with a longer payback will be more secure. Brazil, the second largest buyer of Oklahoma Wheat, is a nation rich with natural resources. Therefore, when the world economy begins to expand, Brazil should have a tremendous repayment capacity.

The tremendous strength of the dollar has forced our customers to pay more for wheat while farmers get less. For example, Peru, the sixth largest market for Oklahoma wheat has seen the dollar strengthen dramatically. In 1980 it took 243 Sols to buy one dollar, today it takes 6,000. Until the dollar returns to a more normal relationship with other currencies we must have aggressive programs to restore U.S. competitiveness in world markets.

Over 35 percent of our wheat sales are to countries who rely entirely on export credit guarantees to purchase their grain. We must insure and promote the use of these in selling our wheat. For example, as part of Stockman's Reduction Plans he wants to increase the fees for getting one of these loans from $10,000 for a 25,000 metric ton load to a $150,000. This will serve only to further reduce competitiveness in world market place. If tract record on repayment of these loans were bad then I could understand this increase. However, while these loans do not have a 100 percent repayment record they are very close to it. I hope you see that we have the means by which to help ourselves with very little if any budget exposure if Congress would only authorize their use.

They are not the total answer as the current farm programs have not corrected our problems but if we would fully utilize what we have I feel that we would be much better off.

In closing, let me say that my wife and I are full time farmers. We love our way of life, our closeness with God and the Earth, we hope that in the years to come our children will also be able to enjoy these same joys, but our economic times must change or they won't.

FEBRUARY 11, 1985.

Senator DAVID L. BOREN,
U.S. Senator,
Washington, DC.

DEAR SIR: The United States Government signed whatever it took to save the Chrysler Corporation. They sign multi-defense contracts ($250.00 for sledge hammers, etc.) without regards to cost. Now comes the Backbone of our nation, farmers and the Land. As reported by Neil Harl, economist on Market to Market of Channel 13 on Saturday, February 9, 1985, "The money the Government is helping the Farm Debt crisis with is ⅓ of 1.% of the total farm debt." An article (attached) states that "For every dollar invested in agriculture across this nation, seven dollars is returned through harvesting, production, packaging, and sale of crops . . . But the government doesn't seem to recognize that when they set prices or when they foreclose on farms."

Please show me where the Defense Budget's money spent returns 7 to 1! I am for a strong Defense, but when it is reported that there are enough Nuclear Bombs to destroy the World many times over, I find it hard to accept Mr. Wineburger's demand for a 30% increase in appropriations. There are millions of tons of military equipment termed obsolete (trucks, jeeps, airplanes, ships, etc.) that could be sold at scrap-iron prices or given to the non-operating steel mills for recycling into new equipment. This could generate new jobs.

Added to this, is why does the American people have to pay Inter-national Bankers off when a foreign country defaults? I have never heard of the government, foreign country, or Inter-National Banker paying off a defaulted small business or farmer loan. It has been reported that French farmers get 125% parity loan guarantees, which are guaranteed by the United States taxpayers.

The Government pays interest on the National Debt. If the U.S. Treasury makes (prints) our money, why do we have to borrow money from the Federal Reserve? Are we paying interest to borrow our own money? Attached is an article about the Federal Reserve System. Eight (8) Inter-National Bankers are listed as stock owners of the Federal Reserve System. Mr. Paul Volcker, the head of the Federal Reserve System, is appointed by the President. He can not be fired! Who sets the interest rate? The Federal Reserve does! Who regulated the U.S. money supply? The Federal Reserve!! Does Congress have the power or right in directing the policies of the Federal Reserve System? It does not appear so!!

I did not hear Mr. Stockman say anything about stopping Foreign Aid. Foreign Aid should be just that, aid! Aid in the form of food, medicines, equipment for building and farming, but not our U.S. dollar. Sending food, especially wheat—to make food from, can help our surplus *and* feed the Hungry of the Poor Nations.

There should be a three to five year stop on all foreclosures. The monetary system should be put back under the control of the U.S. Treasury Department, thus it can be controlled by Congress. And our tax system changed to provide equal taxation of every individual and corporation, above the poverty level. That is you, Sir, me and the Rockefeller's of our country (who pay nothing).

Thank you.

JIMMY D. SPILLER.

[Reprinted From The El Reno (OK) Daily Tribune, February 6, 1985]

FARM HELP PLAN TAGGED "TOO LITTLE, TOO RESTRICTIVE."

WASHINGTON (AP).—With the battle heating up over a farm credit crunch, the Reagan administration is rolling out a remodeled loan guarantee program it insists will bring relief and allow spring planting to proceed.

But farm-state lawmakers and representatives of agricultural banks labeled the rescue package too small and too restrictive even before today's formal announcement.

"I cannot embrace a program that offers too little assistance and too little hope, a plan that is inadequate to meet the needs of the farm economy," said Sen. Nancy Kassebaum, R-Kan.

While members of Congress were pressing at least a dozen bills to flesh out the administration plan, President Reagan's budget director, David Stockman, was accusing agricultural interests of political "blackmail" in trying to secure loan guarantees for farmers.

"For the life of me, I cannot figure out why the taxpayers of this country have the responsibility to go in and refinance bad debt that was willingly incurred by consenting adults" on the chance they might profit from rising farmland prices, Stockman said Tuesday while defending administration budget cuts before the Senate Budget Committee.

"The one group that's had the greatest budget excess in the past five years—$60 billion in farm subsidies—starts the log rolling by demanding more. It's a little discouraging," he said.

But in response to a question from Sen. Bob Kasten, R-Wis., about credit relief for farmers, Stockman said some help would be offered.

"We are probably going to have to do something because there's a drumbeat, the political demands are so great, because basically we have been threatened with a blackmail situation," Stockman said.

He said he hoped that in response, the administration will "get some help in biting the bullet" on cutting farm price supports, mentioning those for dairy products and wheat in particular.

Stockman's blunt comments came as a group representing most of the country's agricultural banks was saying the administration credit aid package was insufficient and proposing instead a greatly liberalized version.

Thomas Olson, president of the Lisco State Bank in Nebraska and chairman of the Independent Bankers Association's committee on farm banks, said the administration package was objectionable because it requires lenders to forgive part of a borrower's interest costs or principal in return for a federal guarantee of part of the loan.

"I think we're taking the hit" already because of loan losses, Olson told reporters at a news conference.

He called instead for the government to do away with the interest and principal forgiveness features of its guarantee plan, boost the guarantee level to 90 percent of the full principal and expand it to $3 billion.

In addition, the group said it will press for legislation making available $100 million to "buy down" farm borrowers' interest rates, which it said it would match with a like amount from individual private banks. That would enable banks to offer a 4-percentage point cut in interest rates on $5 billion worth of loans to the most financially ailing farmers, Olson said.

Meanwhile, Rep. Tom Coleman, R-Mo., said he planned to introduce legislation this week calling for a 75 percent federal loan guarantee to encourage spring planting loans, an expansion of Farmers Home Administration operating loans for those in areas hit hard in recent years by natural disasters, and an increase in FmHA personnel to process backlogged loan applications.

Who Owns the Federal Reserve and Runs Our Government (Bureaucrats)

"Permit me to issue and control the money of a Nation and I care not who makes It's laws." Mayer Anselm Rothschild

"The Federal Reserve (privately owned Banks) are one of the most corrupt institutions the world has ever known." Senator Louis T. McFadden (22 years Chairman of U.S. Banking and Currency Commission.)

THE OWNERS OF FEDERAL RESERVE

1. Rothschilds of London and Berlin.
2. Israel Moses Seaf of Italy.
3. Kuhn, Loeb and Co. of Germany and New York.
4. Lazares Brothers of Paris.
5. Warburg and Co. of Hamburg, Germany.
6. Lehman Brothers of New York.
7. Goldman, Sachs of New York.
8. Rockefeller Brothers of New York.

Return our money system to the Department of Treasury where it belongs.

Prairie States Financial Services,
February 11, 1985.

Hon. David Boren,
Senator, Oklahoma,
Washington, DC.

Dear Senator Boren: The only long term solution to our nation's farm problem is a business solution. Our nation's farmers must develop the same skills that are necessary for any business to succeed. A farmer without a sound financial plan, which must include his analysis of cost and income, as well as a sound risk management program and a marketing plan is doomed to failure. No longer can our nation's farmers rely upon the nation's taxpayers to subsidize their operations.

We hear some of our more militant farmers demanding a guaranteed profit. In my opinion, if we raised prices 50%, I firmly believe that our farmers would expand their expense base at a faster rate than their income, and in one or two years these increased prices would be too low. At the same time our production would be priced out of the export market, causing deeper problems in the future. A sad commentary, but true. Our farmers, like our government, must learn to operate within a budget. Expenses and living costs must be less or at least equal to their projected income. Many farmers, and their lenders, have no idea what it costs to raise a bushel (or pound) of their basic commodity. Without a firm handle on costs, many business mistakes are made. Land costs, machinery costs, fertilizer costs, and many other input costs are ignored, and total effort is spent in producing maximum yield without regard for the laws of diminishing returns on dollars spent. There are two ways to cure a deficit. One is to raise income; the other is to cut spending. All past government programs that have attempted to raise income by cutting production have failed. Farmers have set aside their least productive acres and have spent more and more on the remaining acres raising yields which defeat the logic that was behind the program at the start. In most cases, the large farmers grow larger as a result of the very programs that were designed to help the small farmer survive. When you increase prices, you increase competition for all the resources of production, especially land prices, so naturally the large landowner can leverage more money to increase the size of his operating unit, using the higher income generated to justify his actions. I say again the only solution to these problems is a very simple one. Farms must be operated as a business.

As a start toward getting our farmers into the business side of agriculture, our company has developed a very simple set of worksheets.

When the worksheets are input into our computer program, we can analyze and project costs and profits. These enterprise analyses can determine if an operation has a potential for profit or loss. In gathering this data base, we establish a production model using the information generated to establish an average cost of production so that a farmer will know if he is competitive or not, and if not, why not. By knowing costs, advance marketing decisions can be made. By using crop insurance, income fluctuations are greatly modified.

In many of our farm communities our banks are in more trouble, if possible, than our farmers. We can help both the farmers and bankers with an interest subsidy program designed to help only those farmers that need the help, and with help can survive. Let's use our limited money resources where the money will do the most good.

My suggestion for helping to alleviate the severe financial problems that many of our farmers are in, is as follows: Let's set up an interest subsidy program that would be available for farmers that have proved their need of such help, and have demonstrated that they are competitive in the operation of their farm. We can require all applicants for interest subsidy to complete a set of simple worksheets which, when run through a computer model, would produce an analysis of costs and projected income on each of their enterprises, along with 12 month cash flow projections, balance sheets, and debt ratios. With this information, we could then start a computer sort of our farmers to determine which of the farmers need interest subsidy and how much those deserving farmers would need in order to get their operations to at least a break even. There are many farmers that are making a good living from their farm, and are not in financial trouble.

These farmers had the good judgment not to go too deeply into debt; and therefore, do not have a problem. They would not be eligible for interest subsidy. There are other part time farmers who use farming as a hobby or, perhaps, a tax shelter. These individuals have off-farm income that more than exceeds their living expenses. These farmers could be eliminated from the program. Other farmers have living expenses that greatly exceed normal expenses. These farmers that are spending excessive amounts of money could have their interest subsidy reduced by the amount in excess of what would be considered prudent. There are other farmers that are so deeply in debt that interest subsidy will not stave off the inevitable demise of their operations. These farmers have such a huge debt ratio and so many problems that are outside of the realm of help that they would be eliminated from the interest subsidy program. Another category of farmers would fall into non-productive or non-competitive farmers. These are the farmers that are out of budget with their production expenses to the point that, even with interest subsidy, they are still going to be losing money on their operations. What we have left are farmers that are competitive, that have their expenses in hand, including living expenses, that are making average or above average yields, and do not have off-farm income. In other words, they are the backbone of the family farm community throughout the United States. These are the people that we can target for interest subsidy help. By isolating the core of farmers that truly need and deserve help, we can give them significant amounts of help in order to insure their survival. We could expect the lenders to co-op interest reduction program; after all, without this interest help many of these loans would have to be written off. By helping only those farmers that need and deserve help, we can save the taxpayers hundreds of millions of dollars. As I stated at the beginning, a business solution is the only long-lasting solution to the farm problems.

Even the farmers that don't qualify for interest subsidy, have made the first step towards analyzing their costs and production expenses by completing the worksheets and by analyzing the results, thus starting them down the road to financial management.

The administration of this program would be financed one hundred percent by the farmers themselves. I estimate that the total computer costs and costs of administrating the program to be about $100 per applicant. This $100 would be paid by the farmers that have applied. The money will have been well-spent, even though they don't qualify for the interest subsidy. Another big advantage to the taxpayer is that we have not created another bureaucracy to administer this program.

One hundred percent of the monies spent on the interest subsidy program would go directly to the farmers that have shown the need for this subsidy. This third party verification by private industry would remove the conflict of interest problems inherent with having the interested parties involved in the decision of who would receive this subsidy and how much. A private company could set up a whole network of people to gather this information. In every farm community there are insurance agents, accountants, accounting teachers, and farmers with accounting degrees, who could help the farmers fill out the worksheets. This information would be sent to a central processing center; and, within the parameters that were set, the computer would sort the farmers into the several different categories.

If a farmer felt that he should have further consideration on his request for interest subsidy, then he could appeal through the Farmers Home Administration.

I want to thank you for the time that you have given me, and I would appreciate your consideration of this business solution to the problem facing agriculture.

STEVE STROUD.

THOMAS SEED CO.,
Washington, OK, February 9, 1985.

Hon. DAVID BOREN,
Member Senate Agriculture Committee.

DEAR SENATOR BOREN: For the past week or more I have been asking my Farmer Neighbors to make suggestion for solving our Farm Problems. I have accumulated quite a list.

It includes:
Raise Farm Product prices.
Reduce interest rates to farmers.
Reduce Inflation.
Stop deficit spending.
Reduce the value of our currency abroad.
No more embargos.
Stop trying to use agriculture products to dictate Foreign Policy.
Create a two price policy, one for domestic products and one for exported goods.
Subsidize exports so we can compete with other nations doing the same thing.
Change method of counting farmers.
Stop the retired farmer and non farm land owners from being counted as farmers.
Give the American people a true count as to the number of farmers.

The most often suggested solution was to find ways and means of preventing non farm interest from buying up Rural America. This has been a problem for thirty years or more.

The Soil Bank program of years past offered the nonfarmer a golden opportunity to invest in Farm Land and prices doubled in a short time. Millions of acres of farm land ended up in nonfarmer hands in a five year period and the Tax Payers paid the total bill.

I recall a Dairy Farm meeting in Wichita, Kansas when a farmer asked Senator Dole, if he was concerned about the nonfarmer purchase of farm lands? He said he was not. Another farmer asked if the nonfarmer can not be stopped, can we have a Farm Program that excludes them from participation? He stated he thought that would be unconstitutional. Shortly there after we got the omnibus farm bill. May things for every body. The American Farmer cannot and has never in the past been able to compete dollar for dollar with every body.

Even our Rural Water Districts have benefited the developers and five acre tracts more than the area farmers.

Our Economic, Agriculture, Social programs and Tax Laws over the past thirty years has all but destroyed agriculture.

Inflation has caused people to buy Farm Land as a hedge against inflation.

Agriculture programs reward nonfarmer land owners as if they were farmers.

Forced busing brought about an exodus of city people to the rural areas. This resulted in School Bond Issues and higher taxes. Check it out, you will find new class rooms at all the rural schools surroungs Oklahoma City while schools are being closed in Oklahoma City.

The I.R.S. allows nonfarmers to deduct the expense of their Hobby Farms and Week-end retreats and reduce taxes due to both State and Federal Government.

This practice is not unique to Agriculture. In the February, 1985 issue of National Geographic there is an article about Maines working coast. On page 231 the author wrote "Summer people have been buying houses and water front property and paying prices that reflect their urban incomes. That drives up property valuation and taxes. Fewer and Fewer Fishermen will have water front access. If they don't have it now, It will be impossible to buy. That makes it hard for young people just getting started" If the Billions of dollars spend by nonfarmers for farm lands had been invested instead in the city where they lived and worked then the Billions of tax dollars spent on Urban Renewal Programs would not have been needed and the farmers problems and debt level would not be so severe.

Sincerely,

JOHN G. THOMAS.

TECUMSEH, OK, *February 5, 1985.*

Hon. DAVID BOREN,
U. S. Senate,
Oklahoma City, OK.

DEAR SENATOR BOREN: In response to your newsletter having to do with the plight of agriculture in America today, I will have to agree with your assumption that this constitutes a very critical national emergency.

My observation from past experience is that this problem was brought about by misinformation from the Department of Agriculture wanting maximum production and encouraging farmers and ranchers to expand and mismanagement by our Federal Government by budget deficits and cheap food policy for the American consumer.

Agriculture has subsidized the American people since World War II, and if we do not get some relief, every rural town in Oklahoma and half the farm population will be bankrupt.

The present major problem today is a false inflated interest rate which is condoned by the present administration and the Federal Treasury. As is the case in my own farming and livestock operation and approximately 300 other farmers and ranchers with whom I work, interest expense is our biggest operating cost.

My personal thinking is that we do not need any more PIK programs and we do not need any additional subsidies to corporate farms that are owned by major industries across the United States. If there is a crop subsidy program put into effect, I feel a "cap" of $50,000 to one farm or any family farm should be enforced, and I personally feel the simplest answer to the whole problem, until we get a decline in interest, would be for the Federal Treasury to pay a subsidy to all farmers and ranchers who must borrow money and are depending on a living from agriculture to hold their present interest cost at seven per cent per annum per year.

I feel that the budgets of all departments of the Federal Government should be cut to bring the Federal budget back into balance, including Social Security and especially the defense budget, as defense constitutes the largest appropriation and waste in Federal spending today.

As I will be unable to attend the meeting to be held in Oklahoma City on February 11, 1985, this is my personal response to your request in your newsletter.

Yours very truly,

BILLY J. WALCK.

SENATOR BOREN: In the past and present farm programs a farmer will lose base acres if he voluntarily plants a non-base acre crop, such as soil building legumes-alfalfa, clover, austrian winter peas, cowpeas, guar, etc.

I propose that future farm programs provide that base acres for common commodities not be reduced when a farmer voluntarily grows short term alfalfa (3 years or less) sweet clover, annual summer and winter legumes. If voluntarily planted without government help, the farmer should have the option to dispose of the crop as green manure, roughage or seed.

Sincerely,

RICHARD WATERS.

STATEMENT OF ELLIS WOODS, REGIONAL DIRECTOR, ASSOCIATED MILK PRODUCERS, INC., GAGE, OK

Good morning. Let me begin by expressing our gratitude to Senator Boren for scheduling these hearings. Agriculture in Oklahoma and across the nation stands at a critical crossroads, and it is imperative that we take responsible and reasoned action. The 1985 Farm Bill will have tremendous impact in the immediate future and likely set the direction of U.S. agriculture for the balance of the century.

We appreciate the opportunity to testify this morning and listen to the views of other farm and agribusiness spokesmen. In my remarks, I'd like to discuss our concerns with the 1985 Farm Bill generally, and the dairy provisions in closer detail.

It is appropriate to start by stressing dairy farmer concern about the outlook for agriculture in total. Dairy farmers recognize that their economic well-being is linked directly and substantially to the conditions of producers of other commodities. Stability in the dairy economy is impossible unless the rest of agriculture is healthy.

The basic building block of 1985 Farm Bill strategy must be to develop the most unified position possible among the various sectors of agriculture. The experience of the 1985 Farm Bill provides an all-too vivid reminder of the consequences of a splintered farm bloc.

Now what about the content of the 1985 Farm Bill. AMPI views constructive government involvement in modern agriculture as a necessity. When it comes to this subject, the question is not, "Should government be involved?", but "When and how?" Farmer and consumer interest make responsible government involvement in agriculture a reality—not a choice—in our complex economy and world markets. For consumers—when tight supplies result in price increases; for farmers—when farm lenders and rural communities suffer.

AMPI members believe that effective supply-management approaches are essential to the recovery of the farm economy. While we do not feel it is proper to prescribe specific stabilization measures for other commodities, we are vitally concerned that future public policy equitably tailor total agricultural output to more evenly match market demand, both foreign and domestic.

Now let us focus specifically on the dairy situation. The first point we'd like to make is that the milk price support program operated satisfactorily from 1949 through 1980 with government costs at reasonable levels. It has served the public interest well by giving dairy farm families the prospect of a fair return on investment, which in return enables producers to assure consumers of dependable supplies of milk and dairy products at reasonable prices.

Due to the price support program, milk and dairy products have an outstanding record in fighting inflation. For example, between 1981 and 1983, the average retail price for a half-gallon of milk increased by only one cent.

Once stability returns to the rest of agriculture, the dairy provisions of the 1949 Agricultural Adjustment Act can be operated without much change; but until then, supply-management measures are necessary.

The current Milk Diversion Program is providing tangible evidence that the supply-management approach can constructively address milk surpluses. Milk production, government purchases and program cost all dropped dramatically in 1984. Consider these achievements:

After 57 months of consecutive increases, national milk production dropped three percent.

Government purchases of surplus dairy products went down nearly 50 percent.

USDA reported the national dairy herd decreased by 319,000 head. There has not been any disruptive impact on livestock markets—in fact, cattle and hog prices have shown improvement.

As a result of the program's effectiveness, government costs for the dairy program were cut by over $1 billion

It should be emphasized, particularly to the national and urban news media, that dairy farmers themselves are totally financing the cost of diversion payments.

We'd also like to express our enthusiasm for the new National Dairy Promotion and Research Program. It gives dairy farmers for the first time, a national, full participation program to enhance demand. The program is projected to boost annual consumption by three or more billion pounds of milk equivalent, by forging exciting advances in promotion, advertising, research and nutrition education work.

Now, what about the dairy provisions for the 1985 Farm Bill?

The leadership of the dairy industry, through National Milk Producers Federation, is currently seeking to develop a consensus within the framework of policy approved by the Federation's voting delegates last fall. This policy calls for 1985 Farm Bill dairy provisions which will:

(1) Assure an adequate supply of pure and wholesome milk for domestic consumption;

(2) Stabilize prices but only to the degree that in the long run market prices are allowed to adjust the resources in milk production to the demand for milk and dairy products;

(3) Encourage market growth and the consumption of milk and dairy products; and

(4) Provide for standby authority for the use of an incentive/penalty program when substantial adjustments in supplies are necessary.

In developing specifics to meet this four point policy, the Federation has proposed revision of the parity concept which has been used to establish dairy price support levels since 1949. The revised parity would rest heavily on the costs dairy farmers incur in milk production rather than being a broad, general index of the costs of all farmers as is the case with the present parity index. The revised parity would include productivity adjustment factors and contain provision for supply-demand adjustment as well.

We view development of provisions to meet the four points of the policy as a package. The industry has not yet reached the needed consensus of the fourth point of this policy. Several weeks ago, AMPI leaders outlined a two-tier price plan as a mechanism which would effectively respond to that need. A copy of a discussion paper outlining that program and its effects is attached to my prepared statement.

The proposal meets a number of the problems that have become apparent through the operation of the Milk Diversion Program. It does:

(1) Maintain farm income;

(2) Reduce government costs;

(3) Avoid excessive production reductions in any area;

(4) Provide for simple and direct administration; and

(5) Place the burden of increased CCC cost on those increasing production.

I personally feel that this program would effectively meet the needs of both the dairy farmer and the government. While the Board of Directors of AMPI has reviewed this plan and recommended it as one that will meet the need, we continue to search for the industry consensus we realize is essential in the development of the 1985 Farm Bill. We present this to you for your review and consideration.

Once again, we appreciate the opportunity to participate in this hearing. Addressing the problems existing in agriculture today should be a top national priority. We are grateful for the outstanding leadership Senator Boren and other members of Oklahoma Congressional delegation are providing and look forward to working with you in the critical months ahead.

GENTLEMEN: We operate a small Farm in McClain Co. 120 ac, with 50 acres of cropland. We grow small acreages of wheat, milo, cotton, prairie hay, honey bees, and over 40 kinds of vegetables, the later being our mainstay. We grow no livestock because we have found them never to be profitable for reasons I will mention later. We have farmed for 10 years, the last 5 full time. It has become easier to make a living instead of harder. We take no Govt payments nor will we ever, and Govt meddling is the only thing that could ever put us out of business.

We compete very effectively with large corporate farms and packing sheds all over the country and so long as the Govt can keep from "stabilizing" and "promoting" we will continue to do so. Any time the Govt gives you something with one hand, they always take something with the other.

Thanks to the Govt, the meat industry is fixed up so that a small livestock producer cannot legally compete for the buyer's dollar and I hope you don't fix the vegetable industry the same way.

There are a lot of consumers out there looking to buy Ag products of all kinds and I hope in your thrashing around trying to help somebody you don't shut off the small independents ability to look for it.

Let the man with the money and the man with the product be free to hunt each other out and do business.

CLAYTON FISHER, *Wayne, OK.*

MOUNTAIN PARK, OK.

Senator DAVID BOREN: My name is Truman Jones, Jr. I am a farmer and rancher from Kiowa County, State of Oklahoma. The crisis facing agriculture today is one of the most serious threats ever to face our nation. This is more than just a problem for agriculture. It reaches into the heart of middle class America. When our steel mills are shut down, our factories are closed, and the farm land lays idle, where is America strength? Middle class America is the foundation on which our nation stands.

When that foundation is torn away, America will crumble and all the missiles and stock pile of weapons will not save us. And to think that our citizens believe that the individual American farmer can sensibly depend on a politically manipulated international market for a fair price for 40 to 60% of our normal production, is a hoax and fraud. I do believe there needs to be a national food and fiber policy that is overseen by concerned citizens and farmers in order to act in the best interest not of just of agriculture, but our nation. It is my belief that the future of the family farm will not come about under the so called free market approach by the present administration or without the support of the urban worker and his unions. Yes there is a crises in Middle America. We need help.

Thank you.

TRUMAN and BETTY JONES,

Hon. DAVID BOREN: I was unable to be present at the Senate Agriculture Committee proceedings at Oklahoma City on Monday, Feb. 11th. I am writing this letter to express my views on the situation facing farmers today due to the continuing confrontation of factions that do not attack the real problems we face. I will address the areas that I feel are the real culprits facing agriculture and the future of this nation.

First, and foremost in my mind is a thorn that has been prodding America for many years. The Federal Reserve was established by Congress to regulate and maintain the money supply for our nation. Now it is being used by a few people, some of which are not U.S. citizens, to hoard and strangle our country and people into devastation. Our government prints money and is purchased for pennies on the dollar by these people who in turn lend this money back to our government and banking system at a massive profit. This is insane and the biggest bloodsucker, in my mind, that this country has ever seen.

Second, and probably just as crucial, is the high interest rates we must pay to produce our crop and livestock so Americans can maintain a high standard of living on less disposable income than at any time in history. It seems that the planned action is to make more credit available to farmers. It is time to realize that you cannot borrow yourself wealthy. High interest rates combined with a strong dollar and markets crippled by government intervention have almost made the U.S. family farm an extinct species.

Third, and ever so important, is the trade. How many countries allow imports of products that they have produced in surplus of their domestic needs? How many countries allow a trade deficit to continue without imposing restriction or tarrifs to protect their own people? What is fair and democratic about three percent of the people of a nation to bear the brunt to try to stop Russia from aggression, to fail in that plan, and then plan to destroy any protection the government has for that sector? The embargo destroyed trade, faith in U.S. as a reliable supplier, and created a huge surplus that has driven net income of farmers down.

I honestly believe that until the Federal Reserve is back under government control, interest rates are drastically reduced, and balance of trade through increased markets for our products are accomplished, American agriculture will not prosper and could possibly and probably accelerate towards corporate control. When this happens, food will no longer be cheap and an America way of life will be gone. The future of America is at stake. If farmer fail, America, as we know it, will fail also.

Thank you Senator Boren for your support and cooperation. You are to be commended. I just wish that government, as a whole, was as concerned as you are. Thank you.

Respectfully,

HAROLD GENE MILNER.

STATEMENT OF MASON MUNGLE, ATOKA, OK

It is a distinct pleasure to be able to testify for Agriculture. As I prepared this statement, as well as before, there was a great feeling of despair and desperation for myself and other young family farmers. Food is a basic ingredient for life! Why do we have to fight for producing food today. Fight to keep our families fed and clothed.

I am a dairy farmer. Our milk goes into the Dallas milk shed. This is a part of the Texas Federal marketing ~~order~~. They watch production and consumption and tell us monthly through a newsletter what percent Class I consumption has attained. Through them the dairyman has been able to keep price supports up. Why then are so many people pushing for a "free market." There is no free market in the world, and I venture to say that there has not been one in the last fifty to seventy years. How can our farmers compete with European Economic Community farmers? World wheat market is less than $3.00 per bushel. EEC farmers get $6.00 per bushel for all they can produce. Who pays? The EEC consumer, to the tune of a 1.4% food tax. Who pays in the U.S.? The farmers, by eating slowly into their farm equity. Equity that our fathers and grandfathers have built. We need price for product—Not more credit.

Some farmers are getting around this lost equity by selling to investors or large corporate operations. This will be the efficient producer of Tomorrow. They can be large enough to keep per unit cost low. We see it in the dairy industry—more 700-5,000 cow dairies every year. They can modernize; they can keep per cow costs down because of large numbers. The quote family farm will be a very small unit that is supported by off farm income. That is the way it is in Atoka County now.

Turn the farmers loose in this country, help us—not hinder us—on exports and you won't see such a Trade Imbalance. You will see money from agriculture and supportive areas flowing back into the Federal coffers and reducing the Federal deficit.

We must all work together. Each commodity is not an entity to itself, but what is good for one commodity has a direct bearing on others. Example, when corn prices were declining in the late 1970's, people in the corn producing region found some other way to market their corn—through the dairy cow. Then we went into the Self-Help Dairy Program. What happened, we saw feed grains and wheat stocks increase.

Something else that makes the U.S. such a great agriculture producing country is Soil and Water Conservation. Conservation is vital to the farmer as well as everyone else. Why then do we have to defend conservation. Look at the Dust Bowl. Look at where we were headed. We had a turn around—Ethiopia didn't.

Agriculture commodities and Conservation are all tied together so that each of us has at least two well rounded meals a day. Thanks farmers. Thanks Conservationists.

Statement of Mrs. Roger Murphy, Edmond, OK

President Reagan called for a "Second Revolution" after hearing David Stockman's remarks pertaining to Farmers. There just might be the beginning of a third. Every American Farmer and Businessman who faces "Foreclosure" is a victim of fraud.

Since the inauguration of the Federal Reserve, Americans have suffered one of the most serious financial depressions and revolutions ever known in our history that of 1920-1921. Millions of farmers left their farms because of difficulties with the odd status of credit. Today, This gigantic trust creates inflation, high interest rates and operates outside the control of Congress and through its' Board of Governors manipulates the credit of the United States.

The Federal Reserve is the most powerful economic dictatorship outside the kremlin. Its' Chairman is the most powerful man in America. He can veto Presidential Programs and Congressional legislation. This man has put 9 million Americans out of work. He granted a $300 Billion subsidy to the financial industry in 1981. Governor George Mitchell of the Federal Reserve Board stated "Change the Risk Tolerance" that is lend to the Borrowers who are less certain to pay back their loans and therefore can be forced to pay higher rates. . . . . Oklahoma Banks have done just that to Oklahoma farmers, hoping to gain farm lands and assets. Newspapers are full of stories about Banks in trouble. So, the Federal Reserve has brought American Agriculture to its knees once more!

Having first hand knowledge of how Banks, and their operations are fraudulent, illegal and unconstitutional. It is with great concern that I would encourage something be done immediately to right this private—for profit corporations The Fed Reserve.

The United States would be better off if the Federal Reserve had never been created. Paul Volcker pretends to fight inflation with excessive interest rates.

Our national Debt has doubled in the last decade as result of Federal Reserve, high interest rates and 2 programmed recessions have resulted, congressional representatives should treat this corporation like we parents do our teen agers who set out to spend more money and then expect parents to pay. Only our teen agers do not have Billions to spend.

The Federal Reserve was created to provide the economy with a neutral money supply. Until it is proven that a free money market does not work, the amount of credit and interest rates should be determined by the free money market mechanism.

If Fed intervention: it should be initiated by elected officials, suggested by the president and approved by Congress, and then on behalf of the public not the bankers. American Farmers along with all Americans will benefit from low and steady interest rates which are prerequisite to a stable economy. Low interest rates are non-inflationary. Credit is the life blood of our system and low interest would encourage competition and allow a freer flow of goods and services. High interest rates restricts economic activities.

Low interest encourages investment in plants and equipment, improving productivity. Balancing the budget would become a possibility. The American people would be wealthier and our economy healthier.

Americans can no longer be subjected to the uncertainties that the Federal Reserve high interest creates. It is time to free ourselves from the cyclical gyrations of the Federal Reserve cycle and this enable Americans to emerge from our crippling stagflation which has predominated our economy since the recession of 1970. Unemployment, and bankruptcy would no longer be in the news.

We have been brainwashed into believing that interest rates should be 10 percent or higher by Volcker. This is an abomination.

Interest rates today should be the lowest in history. The U.S. Government should pay no more than 2 percent for its financing. Prime interest rates should be 2 to 4 percent—Mortgages from 4 to 6 percent and consumer credit up to 7 percent.

For protection to American public—we must establish a National Usury Law—by amendment to Constitution. Be first industry. Agriculture must declare our independence and serve notice on the financial junta. Whatever our economic status—poor, middle class or wealthy—We will no longer be their economic surfs!! Throw the money changers out!

Statement of Delmas Northcutt, Peanut Producer, Kingston, OK

Mr. Chairman I am Delmas Northcutt, a long time peanut producer in Marshall County, Oklahoma. In behalf of peanut producers in this area, I want to welcome you here and express appreciation to you for the effort you have made to be here today.

I have given quite a lot of thought to our peanut program after the current law expires with the 1985 crop. And I've discussed the matter with a good many of my neighbors who have farmed peanuts most of their lives.

We're thoroughly convinced that the future peanut program must be patterned closely after the present program if we are to survive as "family farm" peanut growers. The peanut program which we have today works. Seven years of experience proves that point. We'd like to see some fine tuning in the program but not in the basic structure of it.

It appears to me that the experience of the past few years with some other crops has proven rather conclusively that uncontrolled production with inadequate price floors have just about ruined a lot of farmers.

The present peanut program with its two-price system controls government cost exposure on the quota production while permitting unlimited production of additionals for export/crushing at no cost exposure to the federal government and taxpayer.

We want to continue the quota base but it should be increased as needed to keep up with domestic consumption. We've got to have price assurance at a level which will give us a chance to make a profit—without that opportunity most of us cannot get financing to plant and produce the crop. A large percent of our growers must have financing to continue to operate. We think peanuts are best produced by family farmers, not by large corporations. We are convinced and we think past history proves that the family farmer has consistently produced an adequate, dependable supply of peanuts at the very lowest cost possible. Continually rising costs make it more necessary than ever that price levels at which we can market our crop be tied to such rising costs. We have absolutely no control over the most of these cost increases.

Because of rapidly escalating costs over which growers have no control, we must have reasonable price protection on our quota production. The quota support rate provided in the current farm legislation should be closely examined and increased automatically as costs increase. Farmers cannot continue to produce a top quality product unless they have the opportunity to make a profit. Farmers cannot continue to secure financing to produce the crop unless anticipated income exceeds expected costs. There is no doubt that a large part of the nation's peanut producers must have annual financing to continue to farm. There is also no doubt that many of the steps a farmer follows to produce top quality peanuts, significantly increase his costs. The American public deserves and has been getting top quality peanuts. This cannot be compromised.

Peanuts are a nutritious food. Peanuts must be harvested, handled and marketed differently than cotton and the grains. There is the need for a planned production system accompanied by support prices that will make crop financing possible.

Growers, through substantial sacrifices in many instances, have made the very difficult transition from the old acreage allotment "one-price" system to the present supply management "two-price" program. We feel some pride in the fact that this transition has largely eliminated government losses on the peanut program. At the same time the American consumer has benefited from a predictable and stable supply of wholesome top quality peanuts at a reasonable price. We support the continuation of the present peanut program and urge your support of it. We feel that minor modifications should be made but only within the framework of the present program.

Farm programs that provide ample supplies of the commodity for both domestic and export use at negligible cost to the taxpayers are hard to find. The peanut program does this! The program also involves quality assurance through thorough grading requirements and a strict quality control program.

The peanut program is not perfect. From the growers' point of view modifications need to be made that will strengthen the farm quota base and the quota support price. Other fine tuning needs to be accomplished. Other industry segments apparently also want some modifications. But all of the modifications can and should be made under the present program structure. Otherwise, we will lose the stability that a successful peanut program must have.

Mr. Chairman, my message is that the present program as we know it must be retained. Its basic concepts are sound and workable, as proved by many years performance.

Thank you for permitting me to make this statement.

MONTPELIER, VERMONT HEARING—MARCH 18, 1985

[The following material was submitted by Paul Stone, Vermont Commissioner of Agriculture:]

[Reprint from Crossroads, Choices For Agriculture Now]

TAX SHELTERS: THEIR IMPACT ON AGRICULTURE

SUMMARY

Federal tax policy is reducing farm profitability and moving agriculture toward a system of fewer and larger farms, increased corporate and non-farm investment, and reduced opportunities for beginning farmers.

BACKGROUND

Farming offers tax shelters; investments which generate lower tax burdens or greater tax savings than alternate investments of equal profitability. These tax shelters affect investment decisions by farmers, non-farm investors, and corporations, attracting investment to farmland purchases and crop and livestock production. The resulting increased production lowers crop and livestock prices. Moreover, the tax benefits of investing in land get bid into its price, raising land prices and thus raising costs and creating losses for farmers trying to pay for land by farming it. Then, when farm profits fall and land prices weaken, tax motivated investments are reduced by farmers and non-farmers, creating more severe land price declines. This in-again-out-again behavior contributes to boom bust cycles in the land market which destroy people who pay too much for land in the boom and lose their equity during the bust. These distortions in the land market, combined with lower crop and livestock prices, result in a net loss for moderate-sized and beginning farmers who lack the high incomes and large investments necessary to realize the full benefits of tax shelters. However, those who can most effectively exploit tax shelters receive a competitive advantage to gain control of a larger share of agriculture. In general, the advantaged are larger farmers, non-farm investors, and corporate farms. They are generally in higher tax brackets, so their deductions yield greater tax savings. They generally benefit most from tax provisions which reward expansion and replacement of labor with capital.

KEY TAX SHELTERS

The Accelerated Cost Recovery System [ACRS] provides for deduction of facility and equipment purchase costs. ACRS subsidizes investments in equipment and buildings by allowing taxpayers to claim depreciation deductions over a much shorter period than their assets' useful lives. The shorter writeoff gives taxpayers quicker access to tax savings, which has value like an interest-free loan.

The Investment Tax Credit allows taxpayers to claim an income tax credit of up to 10 percent of the cost of new and used equipment. Credits are subtracted from owed income tax, whereas deductions are subtracted from taxable income.

Single purpose agricultural structures are defined as equipment, making livestock/poultry confinement buildings, greenhouses, milking parlors, etc. eligible for the investment tax credit and five year depreciation. Buildings in other industries are depreciated over 15 years and are not eligible for the investment tax credit.

Cash accounting enables taxpayers to mismatch expenses and receipts from year to year by ignoring inventories in determining net income, which can generate artificial farm losses to offset nonfarm income and defer taxation. Cash accounting can only be used in agriculture.

The capital gains exemption makes gains from the sale of appreciated capital assets such as stock, breeding stock, and real estate 60 percent tax exempt. The resulting distortion of taxpayers' incomes is especially great when the costs of creating those gains are 100 percent deductable, as is the case with interest and land shaping costs (for example, bulldozing Sandhills ridges) on farmland and the cost of raising breeding stock for farmers using cash accounting.

Corporate tax rules allow large high income farms to avoid the progressive rate of the individual income tax. Once incorporated, farms must re-invest earnings in expansion to avoid tax penalties.

IMPACTS

The impacts of tax shelters in farming are illustrated by the following problem areas:

Profits have fallen and family-sized operations have been leaving the hog industry since the dramatic growth of large scale hog operations in the late 1970s which was subsidized by favorable tax treatment of single purpose structures. According to a USDA report, there will be one hog producer left in the year 2000 for every five in 1979. The impact of tax shelters has also been felt in the dairy industry, where construction of large dairies continues despite programs to cut back production, and in the poultry industry, where corporations are building giant egg complexes rather than contracting with farm poultry house operators.

Over half of the nation's cattle are now fed by 400 feedlots; farmer feeders are losing money and getting out of the business. The large feedlots typically feed cattle owned by tax-motivated investors who use cash accounting to defer taxation.

Developers have torn up marginal western rangeland for conversion to crop production in spite of record grain surpluses Such developments are subsidized by deduction of land shaping costs as conservation expenses, the investment credit and accelerated depreciations on irrigation equipment, and capital gains treatment of profits from land price appreciation.

In the late 1970s all the farm tax shelters helped drive agricultural land prices far out of line with lands' income producing potential. When the farm economy soured, many farmers were crushed by excessive land payments.

Cow-calf profits have been dismal since the mid-1970s. Investment tax credit and capital gains treatment of breeding stock have encouraged expansion of the breeding herd, thus lowering profits.

RECOMMENDATIONS

Eliminate provisions which create gross distortions of taxpayers' incomes and investment decisions to reduce over-investment and restore fairness to the tax code. For example, confinement buildings should be defined as buildings and depreciated over 15 years.

Limit the volume of farm losses which can be deducted from non-farm income to the national median income to reduce incentives for non-farm investment and over-investment.

Limit the volume of benefits any taxpayer can claim from certain provisions to neutralize advantages gained by large operations and to reduce over-investment. For example, limit the amount of investment credit which can be claimed on farm investments to an amount adequate for farms of the size necessary to be efficient and to earn the median income.

RECOMMENDATIONS FOR A NATIONAL AGRICULTURAL POLICY BY ADDISON COUNTY FARM BUREAU

PREAMBLE

The people of the United States have the responsibility to formulate a comprehensive long term agricultural policy that promotes the well being of all the people. This policy should encompass the following basic principles:

1. Domestic agricultural production is basic to our way of life, our national security, and our economic stability.
2. Conservation—We should conserve our soil, water, and other resources that are necessary for future agricultural production.
3. Farmers should be assured adequate availability of supplies necessary to their operations.
4. Farmers need a financial environment that provides sufficient opportunities to warrant investment risk in order to provide consumers adequate food and fiber at reasonable prices.
5. Farmers should have the opportunity to sell agricultural products on orderly markets at profitable prices.
6. All people, urban and rural, farm and non-farm, should be willing to share in the cost of providing an adequate supply of agricultural products, including a reserve, whether through taxes or the purchase price of food.
7. Governmental laws, policies, programs, and taxing procedures should treat any region, or area, or group of people, or individuals equitably

8. Concentrating food production in a few areas is not sound policy and could intensify natural and man caused disasters. Governmental policies should not cause major shifts in the location of food production.

9. The government should recognize area and regional differences when developing farm policy, writing laws and rules and regulations, and setting price supports.

10. The United States should continue to export agricultural products, but not attempt to be the "breadbasket of the world". We must help other countries in need with food relief while also helping them to establish self-sufficient agricultural production.

11. The current rate at which farms are disappearing and agricultural assets are being concentrated is disturbing. The traditional farm family has been the basis for our highly successful, efficient, and productive agricultural industry. Therefore, Jefferson's philosophy that many property owners are necessary for a strong democracy, which holds true today, should be the basis for future governmental action.

FAMILY FARMS

1. To save our farms all policies, laws, rules, and actions of our government should have as goals:

a. To provide the freedom for an individual or family to earn a decent income, who is willing to work full time managing and operating a farm, investing capitol and taking risk.

b. To reduce the rate at which farms are disappearing.

c. To encourage and help young farmers.

2. All direct governmental payments or subsidies of any kind except for soil conservation payments, should not exceed $50,000 per sole proprietor, partnership, or family farm corporation.

3. Publicly owned corporations (trading shares publicly) and other businesses organized to shelter non-farm income with agricultural operations, should not be eligible for subsidies, target prices, and other income guarantees or agricultural tax shelters.

4. Future government policies, laws, or rules should not encourage investments in farms for the purposes of land speculation, or to shelter non-agricultural income from taxation.

CONSERVATION

1. Private ownership of land is an important right. However, landowners must recognize they are not only owners of, but also stewards of a resource that can not be squandered, for it is vital to the current and future well being of our nation.

2. Since all people benefit from soil conservation programs, the government should increase technical and financial assistance, from present levels, to farms to install and use conservation practices.

3. All agricultural producers should implement conservation programs on their farms if their farming practices, or soils, or other factors make it necessary.

4. Fragile, highly erodable, or other land likely to be damaged by agricultural production should not be farmed. These lands should not be eligible for any government program other than converting them to a use appropriate to their nature.

5. The pressure of exports of agricultural products causes improper land management leading to soil erosion. Therefore we:

a. should encourage only reasonable exports,

b. should encourage food self-sufficiency on the part of other nations.

c. and should encourage and pay for soil conservation efforts on U.S. farms.

DAIRY PROGRAM

1. A sliding scale of dairy price support should be developed and published, and a level of reserve production should be established to insure adequate supplies of milk. The Secretary of Agriculture should use the sliding scale to adjust the price support of milk up or down as government purchases of surplus products indicate changes are necessary.

2. The farm price of milk should be high enough to give farmers an opportunity to maintain a profitable operation.

3. An incentive plan to reduce production should be enacted and ready in case production increases too rapidly. This could be similar to the successful diversion program now in place and paid for by milk assessments.

4. All regions or areas of the country must participate in the product reduction program to be eligible for the sale of products to the Commodity Credit Corporation.

5. Market orders are vital to the orderly marketing of milk.
6. National dairy product promotion, research, and development, and consumer education should be continued. All dairymen should help pay for this.
7. Health and other rules and regulations should be enforced fairly, but rigidly and uniformly. Inferior, low quality milk must not be marketed, or imported.
8. U.S.D.A. and others should study alternative methods of controlling milk production and stabilization of farm income, such as deficiency payments limited to a reasonable amount, and other methods.

CROP PROGRAM

1. Acreage reduction as a means of controlling crop production should continue to be used until a better approach has been developed.
2. The government should continue to subsidize and to expand the crop insurance program with the goal of eliminating, as much as possible, the need for disaster relief.
3. Disaster funds should be available where needed. However, if a producer refuses to buy crop insurance when available no disaster help should be given.
4. Target prices provide a reasonable method of insuring adequate farm income.
5 The world price of commodities should not be the guideline to set or target U.S. farm prices.

FARMERS HOME ADMINISTRATION

1. The Farmers Home Administration (FmHA) is vital to farm financing. However, there should be a reasonable maximum limit that any one family can borrow.
2. FmHA should institute a mandatory farm management program for those borrowers in financial trouble.
3. Housing, town water and sewer, and other non-agricultural loans should be separated from FmHA so that FmHA will have the proper time and manpower to help its agricultural borrowers.

TAXES

1. The tax system should not "subsidize" wealthy investors by providing them agricultural tax shelters, that beginning or high debt family farms cannot utilize.
2. The tax system should be simplified.
3. Vermont should continue to fully fund the land use program.

OTHER POLICIES

1. As with all other parts of our society the federal deficit has a negative effect on agriculture and must be reduced.
2. Agricultural producers should be free to export products. If it is necessary for the government to embargo or restrict exports, then producers affected must be directly compensated for lost income.
3. Imported agricultural products must be subjected to the same health rules, regulations, taxes, assessments, and other restrictions as domestic products.
4. Imports should be controlled so as to not cause a surplus in the United States.
5. The government must continue to strongly support and adequately fund agricultural education, research, and development.
6. The government should continue to encourage agricultural supply and marketing co-ops and associations, and family farms wishing to process and market theirs and others' products.
7. Market orders are legitimate and necessary for the orderly marketing of agricultural products.
8. Agricultural producers should retain title to products sold until payment in full is received.

WHERE HAVE ALL THE FARMERS GONE?

(By Frances L. Stone)

How does one go about telling a people who are well fed, can buy food inexpensively and have a supply of a variety of food available to them that farmers and agriculture are in trouble? How do you convince a people who have heard about farmers being in trouble ever since they can remember that there is a farm crisis?

Much has been written about farmers and hard times, their problems, and how the government always seems to be lending a helping hand with subsidies, price supports, loans, and the like. We have heard over and over about farmers going out of business, losing our family farms, and our land. There is a constant argument over how much the government should support farmers, or if they should be turned over to the free market.

Every four years our Federal Government tackles a farm bill. The bill never seems to look at agriculture in long range terms. It does not contain any national policy to guide us in deciding how to deal with agriculture. It seems like each new administration deals with different problems by putting in this or that temporary program which often does not solve the problems, but rather often makes matters worse, especially for family farms. They also tend to stick with past policies that were formed in the 30's and 40's. Many of these policies are outdated for our present day agriculture and need to be discontinued or overhauled.

The present administration's discussions are not guided by any policy, but only by attempts to cut the budget. Nothing else matters to them. The number of farmers forced out, who is able to continue farming, what happens to the structure of communities when large numbers of farmers are forced out, what happens to farm families that are displaced after living and working all of their lives on a piece of land that has been in the family for generations, where food is raised, and many other important questions are ignored by the Reagan Administration. Secretary of Agriculture John Block seems to have given up on the farmers entirely, saying the United States can't bail out farmers anymore. He thinks the answer is simply to, in his own words, "let them tough it" out and let those that can, survive and those that can't quit. I get the feeling there may be a fair number of people out there with the same sentiments. Like it or not the small farmer is on his way out, as he has been for years, and BIG is in.

Why should this bother anybody one way or the other? Through the years hard times have followed farmers and drastically decreased their numbers and we have continued to have plenty of high quality food. We have not only been able to feed our own country, but have been able to grow such a large surplus that we are able to feed people in other countries, and still have more than adequate reserves. No matter how many farmers leave the land we continue to produce plenty. So what is the crisis?

Paul and I are farmers. We own and run, with the help of our children and a herdsman, a 600 acre, 70 cow dairy farm. Our dairy is an average size Vermont family farm. We are worried about our farm along with thousands of others similiar to ours in structure and problems. We, and others like us, operate our farms as a business, we are very good managers, care for our land and animals effectively, run as efficient an operation as possible, and carry a high debt load that many of us have been forced into in order to maintain our farms and to stay in business.

I will not bore you with all our particular problems of trying to keep our business afloat when it keeps springing leaks, not because of our lack of good management but rather because of the seemingly unsurmontable odds that constantly work against us, and of which we often have very little or no control over. The dairy problem being a good example. For several years dairy farmers had to sit tight while our government argued back and forth over how to solve the milk surplus problem. Many dairy farmers could not make some of their own important decisions until they knew what Washington was going to do, while all the time things kept getting worse for them as they had to keep producing as much milk as possible to meet their ever increasing expenses that were quickly overtaking their income.

Once again makeshift answers were sought by the government and the problem was solved for a little while by a temporary program. A paid diversion program was implemented for the dairy farmers to help reduce the surplus. Well, it did help reduce the surplus. It also has saved the Federal Government one billion dollars because the program has been paid for by all dairy farmers, not by the taxpayers. The program ends this month. What then? Where have we gotten to? Back to square one. What will take the diversion program's place? We do not know. Once again many farmers, especially the family farmers, must sit tight while the new farm bill takes shape. This will take months and the farmers will be lucky if it is ready by October.

We are the crisis. Small to large size family run farms that are going out despite good business, management, and husbandry skills. As we leave we are bought up by developers, large corporate farms, tax shelter farms, neighboring farmers who are expanding in an effort to survive, or our land lies idle and useless. It makes for fewer farmers and farms. Even though we still have plenty of food is that what we want? Already farmers make up only 2.3% of the population. Already we have gone from a rural to an urban society. The family farm, a way of life, the farm community is about to be torn from the fabric of our society and culture. How many farmers do we want to feed us? Only the absolute number necessary? Already a farmer feeds 73 people. Should we increase this to 146? I think not. Why?

Because, farmers are not just for feeding people. If that were all they were needed for it would not matter how few did it as long as we had plenty of food. Farmers and their way of life is a part of our culture, granted a small part but nevertheless a part. They have shared in getting this country on its feet and in its growth. They share with us a way of life that many of us came from generations back. Some say there is a little of the farmer in all of us. That most people like to be able to touch base with "the good earth" now and again. How else can one explain the urge in people to grow a garden even in the middle of the city. In our complex world of today can we afford to lose that small part of society the farm community and its family farms? Might we all lose more than we can even begin to imagine.

We extend ourselves to great lengths to protect our vanishing wildlife from plants and animals. We write reams on it, we are constantly asking people to contribute to save one or the other animal or plant. We talk constantly of the balance of the environment, the importance of each living thing in the life cycle. Yet we seem to let go unnoticed the silent slipping away of a vital and important part of our society and culture the family farms and farm community. As each one passes away a little of us goes with it, and we and our children and our grandchildren get further and further from where our food comes. With the displacement of the family farms we cut out a link in our culture and society that has been a viable and positive force in our growth as a nation and a people.

Well, we have the land and food will be produced. But, who is going to grow it? That has to be answered before any intelligent decisions can be made about how to help farmers. As a people we need to address this issue. We never really have. Do we want a few very large farms with some token family farms, do we want family farms and a few very large ones, or do we want a mixture of both, creating a climate that enables the family farm to exist with its larger brothers? Do we want a few or many farming the land? Once we answer these questions then we can set up whatever is needed to assure that those farmers can indeed continue to adequately feed our country. If we want to keep our family farms with their farm communities we must be willing to help in whatever way is necessary to keep them a viable part of our society and culture.

The present crisis is causing us to lose too many good farmers.

Thank you.

FRESNO, CALIFORNIA HEARING—APRIL 12, 1985

STATEMENT OF CLARE BERRYHILL, DIRECTOR, CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE, SACRAMENTO, CA

TRADE TITLE OF THE 1985 FARM BILL

Thank you, Senator Wilson, for providing this opportunity for California agriculture to voice their needs with respect to the Trade Title of the 1985 Farm Bill. We are confident you will receive through this hearing process the valuable input from California's agricultural leaders that you are seeking.

The policy established in the export component of the 1985 Farm Bill is of utmost importance to California agriculture. In recent years our export markets have declined, in part because the strong dollar has placed our products beyond the economic reach of potential foreign consumers. We are convinced, however, that export development offers the most realistic and viable long-term solution to agriculture's financial problems. Our growers must be afforded the opportunity to compete as a reliable source to food and fiber for the marketplaces of the world. A long-term, consistent and equitable international trade policy is the necessary basis for obtaining this goal.

We believe agriculture should produce for the market. We define a market-oriented program as one that uses real market prices with no unrealistic nonmarket oriented incentives. American price supports have contributed to the noncompetitive position of our agricultural products in world markets. Foreign price supports or subsidies often lead to surpluses unfairly competitive in the export market. Government agreements to overcome the problem of subsidies paid by foreign countries would be helpful.

We must work toward greater access to foreign markets. We must have firm comprehensive programs for reduction of tariff and nontariff barriers. Since most countries are protective of their own farmers, a policy of reciprocity may be the only way we can achieve this. Our concessions to imports can be exchanged for market access for our farm products. Although such agreements seem only fair to us, obtaining reciprocal benefits will not be easy. It will require a tough bargaining posture on the part of the United States Government to gain reciprocal agreements.

In this vein, we ask that the law require the U.S. Special Trade Representative to consult with the U.S. Department of Agriculture (USDA) on agricultural trade issues. We also ask greater cooperation and coordination between the Office of the Special Trade Representative and USDA. We believe the tools exist to provide greater assistance to agriculture but the commitment to use them has been lacking. California specialty crops have especially suffered, in that when our Federal negotiators even begin to talk about agriculture, their first concern is for the basis commodities. Time and again the interests of our specialty producers have been traded off.

A blended credit provision should be incorporated as part of the Trade Title. Our exporters must be competitive with the European Economic Community and other producers which subsidize export credit. We have had some experience with blended credit and we know that it works.

Public Law 480, which gives concessions to underdeveloped nations, needs to remain as part of the Farm Bill. It affords market access to many of our grain producers while giving needy nations benefits. We hope Public Law 480 will eventually turn benefitting countries into commercial customers. Our government should also pursue assisting foreign countries in the long-term development of their infrastructure so that they can appropriately handle our agricultural commodities.

Export controls must be avoided whether they are used as a political tool or to ensure adequate domestic supplies of farm products. The embargoes previously established merely encouraged the countries against which they were imposed to purchase embargoed commodities from our competitors. Farmers should not be made to pay the costs of misguided foreign policies by loss of their traditional markets.

The Cargo Preference Act requires 50 percent of the government-backed cargo to be shipped on United States vessels. This requirement has the potential to adversely impact the export of agricultural commodities under some programs to the extent of bringing them to a complete standstill. We support the United States maritime industry, but a Cargo Preference Act that results in loss of export markets provides no benefit to agriculture or the maritime industry. It should be eliminated. It is one more obstacle in our efforts to make our agricultural products available abroad.

USDA's Foreign Agricultural Service provides valuable services for exporters. These programs offer the kind of assistance most needed in establishing or building up our markets abroad. We encourage full funding of these activities.

In summation, while we favor a phase down of government involvement in the business of agriculture, we believe government involvement in export expansion is appropriate and vitally important. Further, we believe that exports represent the most feasible means of bringing the agricultural industry to the financial vigor that will permit a market-oriented program to work. The new Farm Policy should provide a strong export component, and establish the basis for shifting emphasis of farm programs from supports and subsidies to market promotion.

STATEMENT OF JEAN-MARI PELTIER, AGRICULTURAL TRADE SPECIALIST, CALIFORNIA STATE WORLD TRADE COMMISSION

MEETING THE CHALLENGES OF THE INTERNATIONAL MARKETPLACE

Good afternoon. My name is Jean-Mari Peltier. I am the Agricultural Trade Specialist for the California State World Trade Commission, the state organization charged with expansion of the Golden State's international trade. The Commission is a non-partisan alliance of business and government leaders who meet regularly to address trade policy and promotion questions facing California's international business community. Members include the Governor, Lt. Governor, the Secretary of State, and 12 individuals from the private sector including two from agriculture.

On behalf of the Commission, I would like to express our appreciation of this opportunity to provide the California perspective of the international trade ramifications of pending omnibus farm legislation. In holding a hearing with the express purpose of consideration of trade provisions, the Senate Agriculture Committee has taken a significant step toward recognizing the fact that American agriculture is highly dependent upon export markets. Our thanks to you, Senator Wilson, for this opportunity.

Obviously, we are entering into discussions of the 1985 Farm Bill in a time of economic difficulty for the state and nation. The misaligned exchange rates, and increased government intervention by our trading partners have placed very difficult demands on us. The United States is facing record-breaking trade deficits coupled with mounting foreign competition both within the United States and abroad. A review of recent trends in California's agricultural trade provides insight into the context in which the state's agricultural traders enter the farm bill debate.

California is the nation's number one agriculture state, and ranks in the top three in farm exports. Twenty-eight of the state's crops depend upon export markets to absorb over 50% of their production. California produces 100% of eleven of these crops. One in every three California acres is harvested for overseas markets, and about 25¢ of each agricultural dollar in the state is derived from export sales.

The Golden State's agricultural export mix differs significantly from that of the nation as a whole. While California produces and exports large quantities of field crops such as cotton, wheat, and rice, it also distinguishes itself in horticultural commodities. In 1982, California's fruit and vegetable exports accounted for 45% of the state's agricultural exports, contrasted to the national picture, where field crops, primarily grains and soybeans, make up three-fourths of total U.S. agricultural exports. Additionally, cotton exports account for 7% of U.S. agricultural exports, while cotton accounts for 29% of the total port value of California exports. Traditionally, federal farm programs have focused on the needs of producers of "basic" farm commodities (wheat, corn, cotton, and rice). By and large, production of horticultural crops has been ignored by omnibus farm legislation. Increasingly, however, California agricultural representatives see 1985 farm bill discussions as an opportunity to address questions of export policy for all commodities.

It has been said the California connection to the international market is both a "door of opportunity and a window of vulnerability." The export edge serves California farmers by absorbing a significant portion of our production, and by stabilizing our commodity markets, maintaining our level of profitablity, and increasing farmgate returns. At the same time, however, that export profitability edge carries with it the sting of vulnerability. Cotton, rice, and wheat depend on exports for as much as 80 percent of sales. About 45 percent of the California lemon crop is exported, as is 60 percent of the almond crop. Thus, when foreign nations limit our exports, either through overt actions or because of diminished ability to afford our products (as with the over-valuation of the U.S. dollar), California feels the sting.

After a decade of steady growth, California's exports have plummeted twice in as many years. They dropped by as much as 20 percent in 1982 and fell again in 1983 by an additional quarter of a billion dollars. Contributing to the sharp decline are the strong dollar, sluggish worldwide economic recovery, and increasingly unfair trading practices on the part of our trading partners.

Federal legislation has so far failed to recognize the degree to which domestic farm policy determines our competitive position in world markets. When the U.S. was less reliant on overseas markets, the nation enjoyed more autonomy in setting price supports and production controls. However, price supports now form an umbrella for the rest of the world, and our production cuts make room for increased production by our competitors.

Much of our current agricultural legislation either takes root in the Great Depression, or reflects piecemeal adjustments of outdated policies. Recent events have raised questions in many minds about the ability of the U.S. Government to formulate a consistent and effective agricultural policy.

Although the soon-to-expire 1981 farm bill provided a degree of stability in domestic markets, it also triggered three adverse developments: loss of international markets, rising costs, and accumulation of government-held stocks. These huge stocks were cut substantially by the subsequent "Payment in Kind" program, which provided farmers with title to commodity in lieu of planting additional crops. However, accompanying this acreage reduction in the U.S. was expanded production by our worldwide competitors, further eroding U.S. market shares.

Recognizing the difficult situation confronting California's agricultural trade community, the California State World Trade Commission has made development of an export component of the 1985 farm legislation one of its top priorities. To that end, the Commission has met with a broad cross-section of the agricultural community. In January, the Commission sponsored an agricultural leadership retreat, calling together 30 agricultural trade policy experts. Out of that two-day session, now referred to as the "Murphys Summit," came a set of recommendations which will serve as the basis for the remainder of my presentation.

The major stumbling block to maintenance and expansion of the U.S. as a supplier of agricultural products is the over-valued dollar. We recognize that little can be done to ease this obstacle within the context of the 1985 Farm Bill, with the exception of trimming government expenses for farm programs. Agriculture, the major positive contributor to the U.S. balance of trade, is particularly price-sensitive. The impact of the misaligned dollar falls heavily upon the agricultural sector.

This element of the macroeconomic climate will greatly impact the formulation of omnibus farm legislation. Agriculture will necessarily be drawn into the budget-cutting process—a process which will ultimately benefit the industry by reducing interest rates, deflating the dollar, helping to promote exports. Participants at the Murphys Summit agreed that agriculture alone should not suffer the pain of budget cuts. Rather, agriculture representatives are calling for budget reductions across the board.

California agricultural representatives meeting at Murphys expressed support for modification of the basic commodity support programs to reflect world market realities, discouraging increased production while improving U.S. competitiveness in world markets. Artificially high rates lead to predictable price undercutting by our international competitors, resulting in costly expansion of government-held inventories. Emphasis on market expansion, not producer cut-backs, should be the key to improving the nation's image as a reliable supplier of food and fiber. The commodity organizations represented at the meeting (wheat, cotton, and rice) all supported a gradual elimination of deficiency payments through lowering of the target price, coupled with a flexible loan rate based on past average market prices over a specified time period.

In concert with reductions in expenditures for agricultural farm subsidies at home, the U.S. should continue to call for greater international cooperation to reduce or eliminate subsidies. The 1985 Farm Bill should contain programs to combat the proliferation of subsidies, including a provision directing the USDA to meet subsidized competition in specified markets. Participants discussed at length the advisability of breaking GATT obligations by establishing programs such as an export PIK. Caution was expressed about the potential negative impact of such programs if they were operated in a manner which would distort supply and demand realities. Export subsidies, if implemented, should be viewed as a last resort tool. One method of addressing this point may be Senator Jesse Helms' $325 million assistance program.

The worldwide recession has discouraged expansion of agricultural trade, diminishing markets and leading to the proliferation of foreign government restrictions on imports of agricultural products. A turnabout in world trade, sparked by recovery of industrialized nations has been predicted for this marketing year. However, the United States must remain diligent in calling for the removal of restrictive foreign trading practices. Huge increases in subsidy expenditures by the EEC and elsewhere are robbing the U.S. of its traditional export markets, and American policy should fight these actions aggressively. Language directing the President to press for greater access to foreign markets and clarification of the subsidies code within the General Agreement on Tariffs and Trade should be incorporated into the Farm Bill. While the Murphys group stopped short of endorsing sectoral reciprocity, members stressed the need for negotiators to be provided with an arsenal of tools to induce serious negotiations. An initial review of the Helms' proposal would indicate that it addresses this point.

Based on the success of existing programs, the 1985 Farm Bill should also broaden and strengthen the efforts of the Foreign Agricultural Service to further expand overseas markets. The Exports Incentive Program and Cooperator programs have proven that public/private partnerships can be quite effective in market development.

In a related vein, current Foreign Agricultural Service (FAS) programs to assist agricultural producers entering the international market are established on a regional basis. California, as an example, participates in the activities of the nonprofit corporation Western United States Agricultural Trade Association (WUSATA). With the creation of state entities to promote trade, it may merit consideration to create additional state-federal partnerships for trade development, in addition to existing regional programs. The administrative burden to FAS would likely be increased with such a program, but for states with agricultural product ranges as diversified as California's, more localized targetting of promotional funds could help.

The 1985 Farm Bill should reaffirm the purpose of the P.L. 480 (Food for Peace) program as a tool for market development rather than a balance of payments aid. Long-term market potential of a given country should be heavily factored in when considering granting PL 480 Title I benefits. Numerous delays in the PL 480 approval process, have prompted suggestions for consideration of multi-year programming. This would allow greater program continuity, and provide greater assurances and stability to recipient countries. From the California perspective, the PL 480 program has been of little help since it has not covered the state's porduction of "specialty," high value, or value-added products. Unless and until, a change is made to put more empahsis on these products, the program will continue to be of limited value to California producers.

Discussions of credit and aid programs were somewhat limited at the Murphys Summit. The group agreed that donation programs should be opened to a broader range of commodities, but only in the context of overall efforts to eliminate programs which have tended to encourage development of burdensome surplus stocks. The Helms' proposal to provide processed or value-added foods through P.L. 480 Title II donations may merit support. Credit programs to facilitate the competitive movement of U.S. agricultural goods were endorsed, particularly the concept of a new program to provide intermediate financing needs. Consideration of the long-term viability of the market should play a role in extension of such credit programs.

The group expressed unanimous support for elimination of cargo preference requirements (which mandate use of U.S. flag ships) under P.L. 480 and other government-aided sales. Members agreed that such requirements erode funds available for the programs and effectively subsidize the maritime industry at agriculture's expense. At a minimum, funding for cargo preference should come from the transportation budget, although budgetary constraints suggest the need to eliminate this requirement.

Despite jurisdictional questions, it was agreed that we should press for inclusion of contract sanctity provisions in the 1985 Farm Bill. Agriculture should not bear the brunt of foreign policy decisions alone. Embargoes have displaced traditional U.S. markets which may be impossible to regain.

Raised as a point for inclusion in a miscellaneous title under the farm bill was the requirement that U.S. agricultural attachés, stationed throughout the world, prepare annual reports on foreign countries' domestic support programs. Industries facing market loss due to subsidized competition have had a difficult time accumulating the necessary data. Recognizing of the importance of the trade functions of agricultural attachés, it would appear this approach is meritorious.

In conclusion, I'd like to say that a decade or so ago, successful trade performance was a function of good management by the entrepreneurial trader. Regrettably, the nature of trade is becoming less commercial and more political. California, the world's seventh largest economy, should play a leading role in restoring competitive, market-oriented practices to the international trade arena. This opportunity has inspired among California farmers unprecedented interest in federal farm legislation.

With your help and dedication, Senator Wilson, the World Trade Commission believes that California can help shape farm policy that will serve the nation and the world into the 21st century

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STATEMENT OF FRANK R. LIGHT, PRESIDENT, SUN-DIAMOND GROWERS OF CALIFORNIA

Mr. Chairman, I am Frank Light, President of Sun-Diamond Growers of California and Vice-Chairman of the National Council of Farmer Cooperatives. I am also Chairman of the Agricultural Council of California and a member of the National Commission on Agricultural Trade and Export Policy which was appointed late last year, and I appreciate this opportunity to testify.

Sun-Diamond is a member of the National Council on Farmer Cooperatives, which is an association of cooperative businesses owned and controlled by farmers. It represents about 90% of the nearly 6,000 local farmer cooperatives in the nation, with a combined membership of almost two million farmers.

Senator, you are to be commended for your leadership role on behalf of California's most basic industry—agriculture—through your service on the Senate Agriculture Committee. I commend you for chairing today's hearing and calling together this group to discuss trade policy.

In Washington, D.C. there is currently a great deal of talk about "tax reform" and taxes in general. Today I want to emphasize the dangers of one tax in particular—an export tax which is imposing a 40 percent surcharge on the exports of the American farmer.

Beyond that, this export tax is being used to subsidize imports of agricultural goods into the United States. What makes this export tax so insidious and difficult to deal with is that it was never up for vote in Congress and it can't be found in the tax code: the export tax I am speaking of is the over-valued dollar.

Of course, Mr. Chairman, there is not literally a line-item export tax, but I have described it in this way to dramatize that the strong dollar has this type of effect.

Dr. Ed Schuh (pronounced Shoo), Director of Agriculture and Rural Development for the World Bank, stated in a paper earlier this year: "An overvalued exchange rate constitutes an implicit export tax for export sectors and an implicit import subsidy for import sectors." His statement is true, and the consequences to U.S. agriculture are clear.

IMPORTS UP, EXPORTS DOWN

Agricultural imports increased to a record $19.3 billion in calendar 1984 and are forecast at $19.5 billion for 1985. Of that $19.3 billion, $12.6 billion is the value of imported products which the U.S. produces, which USDA calls "competitive" imports. Competitive imports are up 14.5% from 1983.

The value of U.S. agricultural exports has fallen from $44 billion in 1981 to a projected $34.5 billion in 1985, a decline of $9.5 billion or 22 percent. Actual export volume has fallen from 164 million metric tons in 1980 to a projected 142.5 million tons in 1985—the fifth straight year of decline.

The deterioration of the U.S. export picture is accelerating. On December 3, USDA estimated agricultural exports this year to be $36.5 billion, which is $1.5 billion below the previous year. On February 20, the estimate was lowered to $35.5 billion. On March 12, it was lowered again to $34.5 billion, a drop of $2 billion in 15 weeks. Private estimates suggest that the real export figure is even lower.

For the bulk commodities, outstanding export sales for 1984-85 (sales reported to USDA but not yet shipped) are down dramatically from last year, as the attached table reveals. Compared to this point in the previous marketing year, wheat and product sales are down 44 percent, corn sales are down 26 percent, soybeans down 37 percent, cake and meal down 31 percent, and cotton down 20 percent.

As a result, America's agricultural trade balance continues to slip. The agricultural trade balance will fall to $15 billion in 1985. Overall, the U.S. trade deficit has increased four-fold from 1981 through 1984 to a whopping $123 billion.

WHY IS OUR TRADE BALANCE FALLING

Perhaps the most important emerging influence which has caused our trade balance to fall is a relatively new factor with causes external to agriculture: the overvalued dollar. The tremendous rise in dollar value has increased the price of U.S. products to foreign customers, even if the U.S. price goes down.

In 1984, the U.S. dollar set successive record highs against weaker European monies such as the British pound, French franc, and Italian lira. The dollar also reached an 11-year peak against the German mark, and a 7-year peak against the Swiss franc.

Due to the strong dollar in foreign exchange, the British housewife pays 100 percent more for a box of Sun-Maid raisins today in pound sterling than she did five years ago. The German housewife pays 80 percent more today in deutsche marks for her Blue Diamond almonds than she did five years ago. The Spanish senora pays 146 percent more in pesetas for her Diamond walnuts today than she did five years ago. Conversely, an importer of textile products pays 85 percent less for one yard of material in Turkish lira today than he did five years ago. It's a double whammy. First agriculture loses sales in foreign countries because of the dollar-caused higher sales prices—then at the same time our farmers lose domestic markets to the dollar-caused lower import prices. Imports of textiles since 1980 have displaced 2.5 million bales of cotton.

Macro-economic factors are slapping an export tax and import subsidies onto U.S. farmers. If the government is going to saddle farmers with these macro-economic factors, then the government has a responsibility to help farmers overcome their adverse effects.

At the same time, world markets for U.S. exports are distorted by the unfair trade practices of other nations. Tariff and nontariff trade barriers, variable import levies, and foreign export subsidies all distort world markets.

Grape subsidies in Europe are perfect examples of how we get hit from several directions by the Common Agricultural Policy. First, imports of heavily subsidized European table wines have unfairly taken huge shares of our U.S. wine market—thus displacing our California grape markets. As domestic wineries are forced to cut their demand for wine grapes, general farm prices for grapes are cut and, worse, large surpluses of grapes for wine are diverted into the production of raisins—doubling the raisin production in our state. In addition, these same E.C. grape subsidy programs have unfairly underwritten E.C. sales of Greek raisins in world markets, as well as wine sales to third countries that unfairly and illegally underprice our exports of raisins and wine. As if that is not enough, the E.C. also sets minimum import prices on raisin sales to Europe to further protect their farmers.

U.S. wine imports (as shown in the attached tables) rose to record levels in 1984, now constituting one-quarter of U.S. consumption. French wine shipments increased 25 percent in 1984.

As a result of European subsidies of tomato products, the E.C. now enjoys a 24 percent share of the American tomato paste consumption and 14 percent of our canned peeled tomato market, a phenomenal growth when four years ago their share was less than 4 percent. Subsidized beef from Ireland has saturated the Canadian market—as a result, the Canadians have put a 22 million pound quota on imports of U.S. beef, one half of last year's U.S. sales of 43 million pounds.

We strongly support fair trade. Unfortunately, trade has not been fair. Our farmers are willing to compete on a "level playing field", but the policies of foreign governments have tilted that playing field in favor of our competitors.

WHAT SHOULD THE UNITED STATES DO

Certainly, we must improve our fiscal and monetary policies to curb deficit spending and get at the root causes of macroeconomic problems. Yet these problems are likely to continue, so we must meet our real competition in world trade in the meantime.

On January 24, 1985 delegates to the annual meeting of the National Council of Farmer Cooperatives adopted a trade policy resolution which states:

"Agricultural Trade Policy—The National Council of Farmer Cooperatives is a strong supporter of fair trade. We recognize the importance of expanding U.S. agricultural exports, both for the producer and the economy as a whole. Agricultural exports not only allow the producer to gain a better return for his product but also benefit the U.S. economy by improving our balance of payments and providing jobs.

"Despite the important role which agricultural exports have played over the last decade, the U.S. government has failed to develop a long-term agricultural trade policy aimed at creating an international climate where U.S. exporters can compete on a fair basis. The National Council urges the develpment of a long range agricultural trade policy . . ."

One key is equitable access to markets. There are a whole host of export market opportunities that could improve the income posture of our farmers. Lack of reasonable foreign market access is a major issue for our producers in California. In this state we remain the best when it comes to quality and productivity. We can produce rice at a cost of 20 percent less than the farmers in Japan, 25 percent less than the farmers in Korea, and 33 percent lower than the farmers in Taiwan. Yet, we do not have access to those markets—we can't even get a license to sell rice in those countries.

Sellers of almonds, along with other fruit and nut salesmen, unexplainably find it virtually impossible to obtain a license to sell their products in India. It has been years since Sun-Diamond has been able to get a license to sell raisins in Mexico or prunes in Israel. We cannot sell Diamond inshell walnuts to Japan due to an unfair quarantine. Although the Japanese have recently improved their import quotas for citrus and beef, they are still terribly unrealistic and restrictive. The bureaucratic red tape and other subtle market interferences remain. The U.S. imports many agricultural products from Turkey, but we cannot sell one pound of our dried fruits or nuts to Turkey.

Consider the 20 percent duty on shelled walnuts sold to Japan. That looks small when you see the import duty of about 167 percent on almonds and 121 percent on raisins charged by India if you can even get an import license to sell there. The 100 percent duty on walnuts and almonds imported into the Philippines is better than their treatment of our fruits, which are banned. Korea's import duty on raisins is 60 percent, but we can only sell to the hotel trade.

When one reviews the market access problems that we have in foreign trade, you have to ask the question, why has our government established the Israeli free trade zone, giving Israel access to our markets, yet we still don't have access to theirs—we cannot get licenses to sell our prunes there and their duties on walnuts and raisins are prohibitive. Why did our government institute the Caribbean intiative, giving Caribbean countries access to our markets when we do not have access to theirs. Why did our government relax the automotive quotas for Japanese access to our markets without obtaining compensating access to the Japanese market. We've had enough of this lopsided trade policy—we want and truly deserve a "level playing field." We've had enough of free trade on our side and unfair trade on their side.

ACTION IS NEEDED NOW

American farmers cannot afford to wait for a new farm bill to be enacted before getting relief. If we follow the pattern of 1981, the new farm bill will not be signed into law until late December, eight months away. Crop program provisions of the new law will take effect with the 1986 crop, which won't be harvested for a year and a half. I repeat: American agriculture cannot afford to wait 18 months for new farm legislation to modify programs or rectify our export problems.

Administrative action is needed now to boost exports. We propose the following:

(1) Use of CCC stocks as discretionary export incentives;

(2) Utilization of already authorized export credit guarantees to promote increased sales;

(3) Expanded use of P.L. 480 programs; and

(4) Elevation of agriculture to highest priority with regard to trade negotiations.

REMOVE THE CARGO PREFERENCE BURDEN

While U.S. agriculture has been struggling to maintain its competitive edge, the cargo preference requirements have rendered some of our vital marketing tools useless. On February 26, USDA suspended the blended credit program following a ruling by the U.S. District Court in Washington that the cargo preference requirements would apply to blended credit.

We believe the court interpretation went far beyond the intent of Congress, and now it is up to Congress to set it straight.

We urge you to enact legislation to repeal cargo preference where it applies to export programs beyond the traditional P.L. 480 foreign aid programs. Again, action is needed now and we cannot wait for a new farm bill.

THE MARKETING LOAN

For those price-supported commodities with government target prices, namely wheat, feed grains, cotton, and rice, we strongly support the "marketing loan". This is a new concept, designed to protect farmers while allowing U.S. products to be price-competitive.

Specifically, USDA could offer farmers non-recourse "marketing loans" on their commodities which would be repaid based on the loan rate or the market price for the commodity, whichever is less. This would allow farmers the assurance of the original value of the loan, but avoid market interference by allowing loans to be repaid based on market prices for the commodity. Commodities redeemed at market price levels can be resold by farmers at competitive world price levels, rather than held in government storage at taxpayer expense.

A STRONG TRADE TITLE

Establish an aggressive Trade Title in the 1985 farm bill to counter unfair trade practices, enhance world demand, and compensate for the effects of the over-valued dollar. Specifically, the legislation should provide for a broad spectrum of export credit programs tailored to fit the diverse needs of recipient countries, designed to move those nations from "aid" to "trade" in their relationship with the U.S. New programs to be included would be a continuous line of credit guarantees and an intermeditate credit guarantee program. An export bonus program using CCC stocks should be authorized and implemented as needed. The U.S. must respond firmly to unfair foreign trade practices.

Mr. Chairman, we have specific problems in the area of import-sensitive specialty crops. We are pursuing specific responses through NCFC's Trade and Specialty Crop Subcommittees.

EXPORT COMMISSION

As you may know, the National Commission on Agricultural Trade and Export Policy met in Washington two weeks ago today to approve its interim report to Congree by the April 1 deadline. We succeeded in meeting that deadline. I am honored to serve on this Commission and to report to you their priority concerns or recommendations:

(1) The value of the dollar;

(2) Inadequate formulation of U.S. agricultural trade policy;

(3) Need for export expansion including aggressive countervailing action to protect markets, adequate credit to maintain markets, and greater priority for foreign market development;

(4) Food aid programs should represent a higher percentage of total U.S. foreign economic assistance and should be better targeted to foreign market development;

(5) The United States must re-establish it reputation as a reliable supplier of agricultural products;

(6) Cargo preference damages efforts to expand exports; and

(7) U.S. domestic policies need to provide opportunity for profitability to agriculture.

I also want to cite for you an excerpt of the Commission's specific recommendations, which state that the 1985 farm bill should:

Establish it to be the policy of the United States to directly counter unfair trade practices by every appropriate means, including the use of export restitution and retaliatory use of U.S. import restrictions, to protect and/or expand toward a goal of equitable market share for U.S. products; and

Require the responsible U.S. trade authority to implement an improved system to explicitly measure and respond to unfair trade practices. All other agencies of government should be required to report to Congress the impact on agricultural trade and exports of policies and programs they administer, prior to any action by such agencies.

SUMMARY

Mr. Chairman, immediate action is needed to counter the "export tax and import subsidy" effects of the over-valued dollar. Beyond that, the "fair trade" policy proposed by the Export Commission should be adopted.

The 1985 farm bill must include features such as the marketing loan, to allow the U.S. to be price-competitive while protecting farmers. It should also contain an aggressive trade title, to get American agriculture on the move again.

We look forward to working with you on these initiatives in 1985.

ATTACHMENT 1

WEEKLY EXPORT PERFORMANCE INDICATORS
BASED ON EXPORT SALES REPORTING DATA
AS OF MARCH 21, 1985

(1,000 Metric Tons, Except Cotton)

Commodity/Marketing Year	Wheat & Products	Corn	Soybeans	Soybean Cake & Meal	(1,000 running bales) Cotton
Number of Weeks	42	25	29	25	33
Outstanding Sales					
5 year average	6,455	12,463	4,038	1,113	2,355
1982/83	6,712	11,101	4,138	914	2,044
1983/84	6,207	11,300	3,535	797	2,480
1984/85	3,461	8,343	2,220	553	1,987
Change from previous year	-44%	-26%	-37%	-31%	-20%

ATTACHMENT 2

U.S. IMPORTS OF SELECTED COMMODITIES, FROM SELECTED COUNTRIES
CURRENT MONTH, CURRENT MARKETING SEASON,AND LAST SEASON
(UNITS IN METRIC TONS EXCEPT WHERE NOTED)

COMMODITY/COUNTRY (BEG. MKTG. YR.)	JANUARY		SEASON TO DATE		LAST FULL SEASON	COMMODITY/COUNTRY (BEG. MKTG. YR.)	JANUARY		SEASON TO DATE		LAST FULL SEASON
	1983	1984	PREVIOUS	CURRENT			1983	1984	PREVIOUS	CURRENT	
FRESH FRUIT & MELONS						AUSTRALIA......	-	-	72	691	2,679
APPLES......(JUL)	4,448	7,908	40,184	49,930	104,436	REP SOUTH AFRIC	-	-	-	75	1,998
CANADA.........	2,616	3,872	27,287	21,118	44,233	PINEAPPLES..(JAN)	3,556	3,453	3,556	3,453	63,170
CHILE..........	-	-	276	732	26,082	HONDURAS.......	1,628	3,091	1,628	3,091	30,326
NEW ZEALAND....	-	-	3,131	5,679	15,303	MEXICO.........	1,592	1,277	1,592	1,277	15,033
REP SOUTH AFRIC	-	-	3,628	10,825	11,785	KIWIFRUIT...(OCT)	44	33	1,256	1,521	5,494
FRANCE.........	1,793	3,966	5,060	11,636	6,281	NEW ZEALAND....	44	32	1,219	1,520	5,616
BANANAS.....(JAN)	244,521	273,650	244,521	273,650	2,720,694	CANNED FRUIT					
COSTA RICA......	67,312	62,667	67,312	62,667	606,636	MANDARINS...(JAN)	3,513	3,382	3,513	3,382	46,952
HONDURAS.......	36,865	55,734	36,865	55,734	579,538	JAPAN..........	1,646	1,530	1,646	1,536	23,461
ECUADOR........	57,996	40,299	57,996	40,299	526,693	SPAIN..........	952	1,328	952	1,328	13,276
COLOMBIA.......	44,463	38,606	44,463	38,606	301,756	KOREA, REPUBLIC	152	347	152	347	5,810
STRAWBERRIES(OCT)	750	565	1,496	4,433	2,875	OLIVES,TOTAL(NOV)	5,657	6,449	16,187	13,000	57,731
MEXICO.........	502	398	1,237	3,306	1,799	SPAIN..........	4,963	6,389	16,611	11,398	53,467
NEW ZEALAND....	212	161	370	1,018	633	-GRN,W GR/SP(NOV)	246	667	660	769	2,500
GRAPEFRUIT..(SEP)	338	-	1,130	3,003	1,299	GREECE.........	201	77	383	316	1,955
MEXICO.........	335	-	1,061	1,016	1,164	SPAIN..........	16	333	16	360	430
LEMONS......(AUG)	16	13	1,472	4,092	3,241	-GRN,GR,W OP(NOV)	560	458	1,672	989	4,668
SPAIN..........	-	-	-	3,023	1,649	SPAIN..........	430	356	1,217	676	3,370
CHILE..........	-	-	1,209	890	1,209	GREECE.........	102	75	176	246	581
LIMES.......(APR)	2,446	1,907	13,886	21,141	18,960	-GRN,RP,W GR(NOV)	396	75	433	131	1,810
MEXICO.........	2,233	1,443	13,264	17,312	15,618	SPAIN..........	338	0	338	3	1,498
BAHAMAS........	193	425	2,177	3,175	2,647	GREECE.........	396	75	86	75	283
TANG./MANDAR(NOV)	1,436	402	16,778	11,030	17,433	-GRN,RP/GRN.(NOV)	137	266	360	544	1,758
MEXICO.........	1,259	34	13,213	9,509	15,479	SPAIN..........	109	239	319	507	1,621
ORANGES.....(NOV)	2,268	4,473	4,316	13,291	17,448	-PITTED/STUF(NOV)	4,239	3,637	13,177	10,340	45,786
MEXICO.........	1,810	-	3,297	3,675	6,656	SPAIN..........	4,070	3,436	12,704	9,826	43,603
ISRAEL.........	13	-	76	-	3,768	-RIP/PRE REC(NOV)	98	43	332	257	1,409
DOMINICAN REPUB	18	140	130	1,368	2,066	GREECE.........	87	29	249	190	1,068
GRAPES......(OCT)	283	1,323	566	2,265	145,691	PEACHES, ALL(JUN)	3,281	2,428	6,879	16,396	23,836
CHILE..........	63	1,031	63	1,604	131,136	SPAIN..........	2,535	1,887	5,761	6,194	8,739
MANGOES.....(JAN)	398	311	398	311	37,466	REP SOUTH AFRIC	475	212	696	4,685	7,912
MEXICO.........	64	-	64	-	28,578	GREECE.........	34	122	73	732	3,377
HAITI..........	291	156	291	156	7,704	PEARS.......(JUN)	11	1,378	62	3,508	923
CANTALOUPES.(MAY)	3,136	7,385	61,368	56,606	121,611	CANADA.........	-	40	-	57	561
MEXICO.........	949	4,137	58,241	49,533	110,589	REP SOUTH AFRIC	3	220	3	960	149
MELONS,OTHER(MAY)	3,326	3,950	11,702	19,019	39,863	SPAIN..........	8	1,049	18	1,931	106
MEXICO.........	1,863	1,598	8,225	9,800	18,753	PINEAPPLES..(JAN)	8,452	13,126	8,452	13,126	201,967
GUATEMALA......	184	376	1,690	2,383	7,509	PHILIPPINES....	4,601	6,668	4,601	6,668	100,372
CHILE..........	34	9	292	1,680	6,757	THAILAND.......	1,342	3,298	1,342	3,298	72,868
WATERMELONS.(APR)	2,842	4,995	70,970	104,203	99,480	MIX,W TROPIC(JUN)	657	1,078	4,531	9,459	9,872
MEXICO.........	2,663	4,963	70,738	104,018	98,904	MEXICO.........	313	625	4,181	5,422	6,611
PEARS.......(JUL)	90	303	1,082	2,627	12,421	REP SOUTH AFRIC	1	-	1	1,349	1,331
CHILE..........	-	37	168	300	6,589						

ATTACHMENT 3

UNITED STATES: IMPORTS OF CHAMPAGNE AND OTHER SPARKLING WINES, 1974-84

Country of origin	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
					Quantity (Million Liters)						
EC:											
Italy	3.6	4.2	5.5	6.4	9.1	8.8	10.3	14.6	16.9	20.7	28.2
France	2.5	2.6	3.6	4.1	6.1	6.7	5.5	7.4	7.1	9.9	13.8
Germany	0.3	0.2	0.3	0.3	0.5	0.6	0.7	0.9	1.0	1.3	1.1
Other EC-10	0.1	---	---	---	0.1	0.1	0.2	0.1	0.1	0.3	.5
Total EC-10	6.5	7.0	9.4	10.8	15.8	16.2	16.7	23.0	25.1	32.2	43.6
Other:											
Spain	---	---	---	---	0.4	0.8	1.5	3.5	6.2	9.5	17.3
Portugal	---	---	---	---	---	---	---	---	---	---	.1
Other	0.3	0.3	0.3	0.3	0.1	0.2	0.2	2.5	0.3	0.3	.4
Total World	6.8	7.3	9.7	11.1	16.3	17.2	18.4	29.0	31.6	42.0	56.4
Percent EC of total	95.6	95.9	96.9	97.3	96.9	94.2	90.8	79.3	79.4	76.7	77.3
					Value (Millions of Dollars)						
EC:											
Italy	5.2	6.6	8.1	10.0	17.1	19.3	26.0	38.5	46.1	58.2	70.8
France	12.5	13.6	18.7	23.0	38.8	51.0	51.3	76.5	66.6	90.2	122.7
Germany	0.7	0.5	0.7	0.8	1.2	1.5	1.9	2.2	2.9	3.1	2.8
Other EC-10	0.2	0.1	---	---	0.2	0.2	0.2	0.5	1.0	1.0	1.6
Total EC-10	18.6	20.8	27.5	33.8	57.3	72.0	79.4	117.7	116.6	152.5	197.9
Other:											
Spain	---	---	---	---	0.5	1.3	2.7	6.7	12.9	19.5	26.3
Portugal	---	---	---	---	---	---	---	---	---	0.1	.2
Other	0.5	0.4	0.3	0.5	0.4	0.5	0.4	2.2	0.8	0.6	.6
Total World	19.1	21.2	27.8	34.3	58.2	73.8	82.5	126.6	130.3	172.7	225.0
Percent EC of total	97.4	98.1	98.9	98.5	98.5	97.6	96.2	92.9	89.5	88.3	88.0

--Denotes less than 50,000 liters or less than $50,000.

1/ Includes TSUSA Nos. 167.1020 and 167.1040.

SOURCE: U.S. Department of Commerce.

March 1985

Horticultural and Tropical Products Division, FAS/USDA

ATTACHMENT 4

UNITED STATES: IMPORTS OF STILL WINE, 1974-84
(GRAPE 14 PERCENT OR LESS ALCOHOL) 1/

Country of origin	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
					Quantity (Million Liters)						
EC:											
Italy	36.[illegible]	45.0	66.6	91.5	149.2	163.5	205.4	226.6	238.6	240.1	238.1
France	26.0	28.1	38.4	43.7	52.9	48.8	43.1	57.0	68.3	84.3	105.5
Germany	19.9	23.1	33.2	39.4	52.2	44.2	44.1	49.3	50.0	57.0	60.7
Other EC (10)	3.8	2.6	1.6	2.1	3.3	3.1	2.2	3.2	3.7	4.0	3.7
Total EC (10)	85.9	98.8	139.8	176.7	257.6	259.6	294.8	336.1	360.6	385.4	408.0
Other:											
Spain	29.6	15.8	5.7	5.3	6.4	6.5	6.2	5.5	5.7	5.0	6.7
Portugal	32.1	25.4	21.0	21.7	23.7	22.5	21.5	20.3	19.1	17.3	18.4
Other	9.3	4.5	4.8	6.0	7.6	7.3	10.4	10.2	11.5	12.9	14.9
Total World	156.9	144.5	171.3	209.7	295.3	295.9	332.9	372.1	396.9	420.6	448.0
Percent EC of total	54.7	68.4	81.6	84.3	87.2	87.7	88.6	90.3	90.9	91.6	91.1
					Value (Millions of Dollars)						
EC:											
Italy	36.9	44.7	58.4	83.4	146.2	181.5	241.4	229.8	238.8	243.4	240.1
France	57.0	65.0	92.6	104.6	159.4	164.7	141.0	172.9	188.6	211.2	259.3
Germany	29.3	33.4	47.7	65.7	98.7	89.7	94.1	97.3	98.5	103.3	101.3
Other EC (10)	4.4	2.8	1.4	1.8	3.8	3.9	2.3	2.1	6.1	5.8	5.3
Total (10)	127.6	145.9	200.1	255.5	408.1	439.8	478.8	502.1	532.0	563.7	606.0
Other:											
Spain	20.6	11.1	4.6	4.6	6.2	8.5	9.9	9.0	9.2	8.2	10.0
Portugal	33.0	27.3	23.0	23.6	26.9	31.1	32.7	30.8	28.7	23.6	24.4
Other	9.1	4.3	5.4	6.2	9.2	10.1	14.4	18.1	16.1	18.5	18.6
Total World	190.3	188.6	233.1	289.9	450.4	489.5	535.8	560.0	586.0	614.0	659.0
Percent EC of total	67.1	77.4	85.8	88.1	90.6	89.8	89.4	89.7	90.8	91.8	92.0

1/ Includes TSUSA Nos. 167.3020, 167.3040, 167.3200, 167.3005, 167.3015, 167.3025, 167.3030, 167.3045, and 167.3060.
SOURCE: U.S. Department of Commerce.

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Horticultural and Tropical Products Division, FAS/USDA

ATTACHMENT 5

UNITED STATES GRAPE WINE TRADE, 1983 and 1984

ITEM	1983		1984	
	1,000 Liters	1,000 Dollars	1,000 Liters	1,000 Dollars
Imports:				
Champagne	42,055	172,713	56,433	225,031
Grape Wine.1/	420,568	614,032	448,003	659,007
Prune Wine	261	276	61	86
Rice Wine or Sake	2,625	4,405	2,855	4,920
Marsala	596	1,039	746	1,283
Sherry	8,019	27	8,143	27
Other Wine 2/	1,341	6,067	1,848	8,300
Vermouth	10,483	17	11,059	18
Other	9,955	10,595	9,919	10,715
Total	495,903	809,171	539,067	909,387
Exports:				
Still Wine.1/	24,217	26,477	19,401	21,226
Other Grape Wine	3,543	4,435	3,218	3,889
Other	1,043	1,221	355	314
Total	28,803	32,133	22,974	25,429

1/ Less than 14 percent alcohol. 2/ Greater than 14 percent alcohol.

SOURCE: U.S. Department of Commerce

March 1985 Horticultural and Tropical Products Division, FAS/USDA

STATEMENT OF RICHARD KING, PRESIDENT, RICHARD KING INTERNATIONAL

When looking at U.S. farm policy, and the responsibilities of the U.S. government in making U.S. agriculture more competitive, there are six major issues to tackle:

First, the U.S. government must handle the problem of the Superdollar. The imbalance caused by this over-valuation has cut very heavily into farm profits, especially in overseas markets. Now as over 60% of U.S. farm goods are produced for export, and as that volume-driven produce continues to grow, it is important to enable foreign groups to pay for product. Moreover, the strength of the dollar puts unnecessary pressure on U.S. farmers to lower prices and unload inventories to meet dwindling profit margins and higher U.S. interest rates. As U.S. products cost more to produce and achieve lower margins of profit, the farmer is squeezed, and foreign buyers turn elsewhere for cheaper exchanges.

Second, the U.S. government needs to establish a national agriculture policy, achieved at the highest level. This coherent national policy should have a heavy emphasis on the internationalization of U.S. agriculture. That means a policy directed at making farm exports more competitive, and negotiating fair multilateral and bilateral agriculture agreements.

Third, the U.S. government needs to figure out how it can best help the farm sector and provide support through funding. Much of the current support (through lending or purchasing policies) is outdated, inefficient, and unequipped to compete with foreign government support of agriculture.

Fourth, the U.S. government must help the farm sector adjust to becoming more market-oriented, and less support-oriented. Which farm producers are most ready to stand on their own feet against international competition, and which groups realistically require government support?

Fifth, the U.S. government needs to help American agriculture regain the international reputation of being a reliable supplier. We must avoid mixing politics and strategic matters with agricultural supply and demand. In the recent past, our farm sector has been most damaged by government policies, and subordinated to other constituencies.

Sixth, the U.S. government needs to figure out when it is advantageous to enter into bilateral agriculture agreements, and when it is necessary to support and enforce multilateral arrangements. The two policies are not necessarily conflicting, but currently, the lack of an overall strategy on the part of U.S. government has hurt our farmers, who have been victimized by loopholes in GATT, GSP, and by international agreements such as those enforced by the EEC.

Now that we've outlined six areas where U.S. farm policy needs improvement, let's consider some of the concrete steps we can take to work toward solutions and practical goals for U.S. farmers. Here is a 15 point program:

First, a good place to start both symbolically and as a matter of international team-building is the development of a world agricultural summit. Talks on a purely domestic level do not begin to solve the problems of our farmers in international markets. By bringing agriculture negotiations to a higher international focus, we can begin to set a framework for solving individual and group disputes.

Second, in the U.S., we need to step up education and planning resources for our farmers. If the new U.S. policy (as we believe) should be for farmers to stand on their own feet, then they need better financial and insurance planning, stronger sources of private research and develpment exchange, technology application, and international marketing assistance. The government can spend dollars wisely here, through the farm extension services, and through faculties such as marketing orders.

Third, it is absolutely critical for U.S. government to bring down the superdollar. The only way to get this done is to reduce U.S. deficits.

Fourth, the U.S. government needs to help farmers pinpoint and capture foreign markets. Because demand is so huge in the Pacific Rim, it is practical to focus efforts on these surging economies (GNP of 5-6% growth vs. 2% for the rest of the world).

Fifth, the U.S. government needs to lead efforts toward continual GATT negotiations. GATT is the best framework we have for resolution of trade disputes on a comprehensive level.

Sixth, the U.S. government must fight both domestic and foreign efforts to mix aid with trade in agricultural areas. This blending of subsidies and swapping of resources has hurt U.S. farmers very badly. The answer is not to counter with similar subsidies, (which ultimately make both markets and producers less efficient), but to negotiate and break down such mechanisms through multilateral pressure. The U.S. is starting down a dangerous road in this area with the imposition of the Israeli Free Trade Zone Agreement, which mixes aid with trade, and hurts U.S. specialty crop producers.

Seventh, the U.S. government needs to become more well versed and effective in noticing and stopping foreign trade practices which are unfair. Such practices in the area of agriculture which are particularly harmful to the U.S. farm sector include: Subsidies, such as EEC credits for group crops, and individual financing for industries such as Italian or French wines. Tariffs, which some developing countries unjustly apply, and which the EEC has used mercilessly in recent cases. And Non-Tariff barriers, fast becoming the most effective means for foreign countries to protect inefficient domestic producers, and so block U.S. farm exports through complicated administrative and technical procedures.

Eighth, the U.S. must show more international sophistication and savvy in dealing with world farm trade. This means specialized, better-trained, long term bureaucrats; and educational services for the private sector in areas to promote understanding of export and countertrade strategies. U.S. framers will never become more effective internationally until they are given the chance to go around the problems of international payments and trade barriers. Realistically, many of those problems will not go away. Hence, huge farm markets lay untapped because foreign groups cannot pay in dollars, or are bound by policy to trade in certain fashions.

The U.S. must play the intra-market game, the regional countertrade game, and others, if it is to achieve significant increase in exports.

Ninth, the U.S. government must recognize that unilateral efforts to reduce world supplies of export commodities are an open invitation to producers in competing countries to expand their own production to take up the slack. Unless programs to reduce production are carried out jointly with other exporting countries, they should be eliminated.

Tenth, the U.S. government must remove the farmer-owned reserve for all major commodities. While it is argued that such reserves provide a buffer against poor harvests and are necessary for ensuring the U.S. as a dependable supplier, this system moves too much against the natural markets. The program is hard to manage because the government ends up selling in competition with farmers, both here and abroad against other governments. American farmers are capable of establishing their own systems to ensure world supply.

Eleventh, the U.S. government can do better advance work for farmers, through more systematically studying foreign buyer needs and demands for crop varieties. This is best done through commodity organizations working in cooperation overseas.

Twelfth, the U.S. government must use target prices more sparingly and carefully. While target prices do help farmers in an income crunch period, their anti-market disadvantages include high costs to taxpayers and a disincentive to plant acreage carefully.

Thirteenth, the U.S. government must conceive a more effective and affordable program of crop insurance. The USDA and several private insurance companies have a lot of data that is helpful in determining how farmers can better spread their losses and plan for market factors internationally. This task should be led by agriculture policy leaders.

Fourteenth, the government must find a stronger means of translating scientific and technological breakthroughs to the entire farming community. Expansion of the agriculture extension service is a good start, but a stronger effort, possibly a consortium along the lines of the microelectronics effort in Texas, where many private groups share access to resources would be desirable.

Last but not least, the U.S. government must expand the availability of short term credit to foreign purchasers, to enable them to buy larger volumes of farm produce according to world market conditions and U.S. productive capacity. Instead of fighting economic cycles, the government can take better advantage of supply and demand by helping those who most need credit afford U.S. products. In the past, this device has helped U.S. farmers plan for export purchases, and unload excess produce to needy markets.

In conclusion, what we need to do with the 1985 U.S. Farm Bill is establish a coherent national strategy which makes U.S. farmers more internationally competitive. The points I've outlined here all work toward those goals, and with strong political leadership, we can move toward them in the 1985 legislative session.

STATEMENT OF WILLIAM F. MCFARLANE, CHAIRMAN, CALIFORNIA FARM POLICY COMMITTEE

My name if William F. McFarlane. I am a farmer in Fresno County and am Chairman of the California Farm Policy Committee.

Our committee was formed last year by representatives of a cross-section of farmers and farm organizations dealing with commodities directly affected by general farm legislation.

During the past several months, the California Farm Policy Committee has gained support from a broad range of California farm organizations for a farm policy resolution which advocates a farm bill that moves toward greater reliance on the market place and preserves the freedom of the individual farmer to make his own farming decisions.

Our resolution calls on California to unite and use its great political strength to support a national agricultural policy which would:

1. Encourage our farm products to move freely to the markets of the U.S. and the world, and
2. Lead to a farm program which would establish the economics of our industry without unrealistically high supports, loans and target prices which lead to unneeded production and resulting burdensome surpluses.

The resolution has the support of the California State Board of Agriculture, California Farm Bureau Federation, California State Grange, California Women for Agriculture, California Beet Growers Association, California Grain and Feed Association, California Association of Wheat Growers, Calcot Ltd., and the Western Cotton Growers Association.

In slightly modified form, similar positions have been adopted by the California Chamber of Commerce, Agricultural Council of California, California Almond Growers Exchange and the Independent Rice Growers of California. The California Cattlemen's Association has adopted a more comprehensive but comparable policy resolution.

Turning to the specific issue of Trade, I would first like to express the support of the California Farm Policy Committee for the President's nomination of Clayton Yeutter as the new U.S. Trade Representative. Mr. Yeutter is well-versed in the many issues facing agricultural trade and is truly qualified for this very important post. Clayton is also well-known to many Californians and understands the agriculture of our state. I urge that his nomination be promptly confirmed.

As hearings continue on the 1985 Farm Bill, the California Farm Policy Committee believes that trade and the value of the dollar are foremost concerns that must be addressed if the nation's agriculture is to be prosperous and profitable in the immediate future.

THE VALUE OF THE DOLLAR

Unless our government deals with the grossly over-valued dollar and brings it down to some more reasonable level, the future will continue bleak for U.S. agriculture.

Nationally, as well as in California, fully one-third of our planted acreage must go into exports. In many California crops, as well as a number of the basic commodities on a national basis, considerably more than 50% of the production must be exported.

Changes in the value of the dollar versus the currency of our largest trading partners in the last four years has roughly doubled our price to foreign customers. Agriculture has compensated for this by massive reductions in price. Thus, we have a situation where growers around this country are receiving less than the cost of production for their products while our customers overseas are paying substantially more for our production than they did four years ago.

The dollar must be brought back to a more reasonable level and the only way to accomplish that is with massive deficit reductions over the next four or five fiscal years so that we eventually reach a balanced budget. This action will help bring about a permanent reduction in the value of the dollar, an increase in American exports and an improvement in the profitability of agriculture.

The California Farm Policy Committee strongly urges that the first priority in this Congress be given to massive deficit reduction.

INTERNATIONAL TRADE

Perhaps nowhere is it more apparent than in California what effects of unfair foreign trade practices mean to the agricultural economy. Many of California's crops are sold directly into foreign markets. Many other commodities, including our specialty crops, could be sold in viable export markets if growers had access to those markets.

California farmers, who account for 10% of all U.S. exports, need access to presently well-protected and heavily subsidized foreign markets. America can no longer afford to open its markets to foreign importers while being excluded from reasonable access to foreign markets.

The California Farm Policy Committee requests that U.S. agricultural policy be changed to match today's economic realities and the international marketplace, and an effective "Trade Title" be included in the '85 Farm Bill. These changes should be incorporated into the 1985 Farm Bill in the strongest possible language.

Most important is the adoption of a farm program that responds to changes and moves agriculture further toward market orientation. Specifically, the 1985 Farm Bill Trade Title should provide for:

1. Increased international market development for agricultural commodities.
2. Reciprocal trade policies which eliminate unfair trade practices, including tariffs, subsidization and unfair market restriction.
3. Commitment on the part of the United States government to push for access to all markets not presently open to American producers.

The California Farm Policy Committee strongly urges that the second priority of the Congress be the elimination of unfair trade practices that prevent American farmers from competing in export markets not fully accessible to American agricultural products.

Thank you.

STATEMENT OF SUSANNE HUTCHINSON, DIRECTOR, INTERNATIONAL TRADE DEPARTMENT, CALIFORNIA CHAMBER OF COMMERCE

Good afternoon Senator Wilson. I am Susanne Hutchinson, Director of the International Trade Department, California Chamber of Commerce.

The California Chamber would like to go on record as supporting the statement presented by the California Farm Policy Committee.

The Chamber supports the broad concerns of California agriculture and has a strong interest in the 1985 Farm Bill—particularly Title One relative to exports.

Of the utmost importance to California agriculture, is the subject of international monetary value. We have long-standing policy supporting a balanced budget and reducing the budget deficit in order to increase the competitiveness of United States businesses internationally, thus reducing the imbalance of trade and currency.

Further, we have long-standing policy supporting a United States trade policy designed to increase fair and equitable access of U.S. agricultural products to foreign markets.

The California Chamber of Commerce urges that a strong and effective Title One relative to exports be included in the 1985 Farm Bill. Such a Title should take into consideration the importance of the international monetary value and provide a fair opportunity for California agricultural products to move competitively to the markets of the United States and the world in a timely manner.

Thank you for your consideration of this important issue.

[The following material was submitted by Kalem Barserian, of the Pacific Coast Growers for Fair Trade:]

RESOLUTION BY PACIFIC COAST GROWERS FOR FAIR TRADE

TRADE POLICY ARTICLE OF THE 1985 FARM BILL

The Pacific Coast Growers for Fair Trade resolve the following:

Whereas, the producers of west coast trade specialty commodities have suffered extensively or are about to suffer because of unfair trade practices by other producing nations; and

Whereas, these practices exist in the form of both production and export subsidies in addition to other programs developed by these nations to promote market penetration into our domestic markets; now, therefore, be it

Resolved, that this organization, Pacific Coast Growers for Fair Trade, recommends the utilization of an import quota system;

Further, let it be resolved that the Pacific Coast Growers for Fair Trade strongly recommends removal of all unfair export trade barriers including but not limited to levies, licenses, tariffs, or non-tariff barriers.

PACIFIC COAST GROWERS FOR FAIR TRADE

Mr. Les Rose, Mgr., Apricot Producers of California, 1762 Holmes St., Livermore, CA 94550.

Mr. Dick La Framboise, Central Washington Farm Crops Assn., P.O. Box 202, Yakima, WA 98907.

Mr. Adin Hester, Mgr., Olive Growers Council of California, 121 E. Main, Ste. 8, Visalia, CA 93291.

Mr. Ken Lindauer, Prune Bargaining Assn., 1307 Gray Avenue, Yuba City, CA 95991.

Mr. Dick Martin, Mgr., Washington Asparagus Growers Association, P.O. Box 150, Sunnyside, WA 98944.

Mr. Peter Sword, Mgr., Western Washington Farm Crops Assn., 1354 Old Highway 99, Burlington, WA 98233.

Mr. Dave Zollinger, California Tomato Growers Assn., P.O. Box 7398, Stockton, CA 95207.

Mr. Ronald A. Schuler, Calif. Canning Peach Association, P.O. Box 7001, Lafayette, CA 94549.

Mr. Rick Malone, Mgr., Filbert Growers' Bargaining Assn., P.O. Box 325, Amity, OR 97101.

Mr. John Mumford, Sec.-Mgr., Ontario Veg. Growers' Marketing Board, 502 Newbold Street, London, Ontario N6E 1K6 Canada.

Mr. Kalem Barserian, Mgr., Raisin Bargaining Assn., 1111 Fulton Mall, Ste. 212, Fresno, CA 93721.

Mr. Larry Jorgensen, Mgr., Washington Potato Growers Association, 1600 N. 20th Ave., Ste. H, Pasco, WA 99301.

Mrs. Dorothy Mortensen, Ross Wurm & Associates, P.O. Box 3027, Modesto, CA 95353.

Mr. Cameron Girton, Manager, Calif. Pear Growers, P.O. Box 1188, Lafayette, CA 94549.

Mr. Keith Tallman, Mgr., Malheur Potato Bargaining Assn., Route 2, Box 48, Adrian, OR 97901.

Mr. James C. Ferrel, Oregon-Washington Pea Growers Association, 756 Wauna Vista, Walla Walla, WA 99362.

Mr. Jack Kooker, Mgr., Vegetable Bargaining Assn. of California, P.O. Box 519, Greenfield, CA 93927.

Mr. Dick McFarland, Mgr., Washington-Oregon Canning Pear Assn., 203 E. Yakima Ave., Rm. 605, Yakima, WA 98901.

Gerald D. Marcus, Esq., Hanson, Bridgett, Marcus Vlahos & Stromberg, 333 Market St., Ste. 2300, San Francisco, CA 94105.

Import Statistics by Apricot Producers of California

The following information was excerpted from California Dried Fruit and Nut Report, USDA Federal-State Market News, Vol. XXXV, Feb. 15, 1985. Additional information was obtained from the DFA of California, the USDA/FAS, and Les Rose, of Apricot Producers of California.

DRIED APRICOT IMPORTS REACH RECORD HIGH IN 1984

The importation of dried apricots into the United States has resulted in a severe loss of markets for domestic apricot producers.

Recently compiled data by the U.S. Dept. of Commerce show that 8,395 tons of dried apricots were imported during calendar year 1984. This is a sharp increase of 2,739 tons, or 48% over the 5,656 tons imported during calendar year 1983. Imports of dried apricots have been steadily increasing since 1980 with the 8,395 tons imported in 1984 being the record high. The total dollar value of these imports has grown proportionately while the landing price per pound has decreased.

TOTAL DRIED APRICOT IMPORTS

Calendar year	Short tons	Landed value (thousands of dollars)	Average price per pound
1980	1,656	4,565	1.38
1981	1,933	6,705	1.73
1982	3,288	9,290	1.42
1983	5,656	11,182	.99
1984	8,395	14,606	.87

Imports from Turkey totaled 7,847 short tons or 93% of the total quantity imported during 1984. This large quantity of Turkish dried apricots was imported at an average value of .87 per pound, landing point. This quantity of Turkish imports was more than double the domestic California production of only 3,520 tons (dried basis) in 1984.

Country of origin	Quantity (short tons [1])		Total value (dollars [2])		Average price per pound (dollars [2])	
	1984	1983	1984	1983	1984	1983
Canada	3.5	1.1	9,663	3,081	1.38	1.35
Mexico	15.0	—	3,750	—	.125	—
Argentina	94.0	37.5		169,723	71,288	.90
Argentina—GSP	98.4	223.3	185,830	497,807	.94	1.11
Germany, Fed. Republic of	—	19.3	—	29,700	—	.77

Country of origin	Quantity (short tons [1])		Total value (dollars [2])		Average price per pound (dollars [3])	
	1984	1983	1984	1983	1984	1983
Greece	—	19.2	—	39,396	—	1.02
Italy	.7	3.7	3,638	19,584	2.43	2.61
Netherlands	19.6	—	29,088	—	.74	—
United Kingdom	—	1.1	—	2,112	—	.96
Denmark	15.0	—	36,566	—	1.22	—
Spain	159.0	45.0	199,961	94,950	.63	1.06
Turkey	7,765.3	4,720.1	13,525,914	8,770,352	.87	.93
Turkey—GSP	81.7	25.3	134,764	46,700	.82	.92
Syria	12.3	—	25,301	—	1.02	—
Syria—GSP	.7	16.1	1,015	30,000	.74	.93
Iran	39.7	59.0	53,130	240	.67	.81
Afghanistan	2.2	—	1,399	—	.32	—
India	23.7	—	21,020	—	.44	—
Pakistan	3.0	1.8	....	3,607	3,858	.60
Pakistan—GSP	5.3	6.7	4,471	6,338	.42	.47
Philippines	—	11.2	—	9,086	—	.41
China—Mainland	1.7	.9	4,191	3,019	1.23	1.60
Hong Kong	1.5	1.2	2,540	2,101	.85	.88
Japan	—	19.2	—	47,150	—	1.22
Australia	44.8	193.9	177,067	809,586	1.98	2.09
Republic of South Africa	8.0	244.9	11,306	593,988	.70	1.21
Other Countries	.4	5.8	1,582	6,826	2.88	.59
Total or average	8,395.5	5,656.3	14,605,526	11,182,162	.87	.99

[1] Tons are short tons which equal 2,000 standard American pounds.

[2] Total value is the declared customs value at time of importation.

[3] Average value at time of importation at the dock or border crossing point before duty is applied to the declared customs.

Source: Foreign Trade Division, Bureau of the Census, U.S. Dept. of Commerce Washington, DC.

Note: GSP denotes items that were imported duty-free as stipulated in the Generalized System of Preferences.

TOTAL APRICOT CROP HIGHER IN 1984

Recently released data from the U.S. Department of Agriculture on the final production estimates for the 1984 California apricot crop shows utilized production at 113,000 short tons or 26% over the 98,500 tons utilized in 1983. Approximately 10,000 tons of usable fruit was not harvested or marketed due to reduced capacity from processors and reduced demand from dry yards.

PRODUCTION AND UTILIZATION

3

Year	Total production	Dried utilization	Percent change utilization	Percent total production	Percent change in price
1979	140,000	39,000	+32.0	28	+18.0
1980	125,000	27,100	−36.0	22	−19.0
1981	86,500	25,000	−8.0	29	+13.0
1982	115,000	33,000	+32.0	29	+23.4
1983	89,500	28,200	−11.8	32	−17.6
1984	123,000	22,500	−20.2	20	−5.8

The portion of the 1984 crop that was utilized for dried apricot production was computed by the USDA to be 22,500 fresh weight short tons. This is a 20% reduction from the 28,200 tons used for dried apricots in 1983, and 32% below the 33,000 tons utilized for drying from the 1982 harvest season.

Dried apricot utilization accounted for only 20% of the total utilized production from the 1984 crop. In 1983, 32% of the crop was used for drying, and in 1982 about 30% of the total crop was utilized for drying.

The rapid increase in imports over the last five years has resulted in the decreased utilization of domestic apricots for drying. It has also resulted in smaller shipments and larger carryovers of domestically produced dried apricots.

In 1979 4,630 dried tons of apricots were produced domestically. Imports were minimal. Carryover as of June 30th, 1980 was 2,121 tons. Since then domestic dried production and shipments have declined rapidly. Carryover inventories since 1983 have accelerated sharply. These factors combined indicate a significant displacement of the market in favor of the imported apricots.

Year	Production (dried tons)	Shipments (crop year tons)	Carryover (June 30 tons)	Imports (calendar year tons)
1979	4,630	5,114	1,486	—
1980	3,271	5,240	2,121	1,656
1981	3,493	4,340	689	1,933
1982	4,492	3,298	878	3,288
1983	3,279	3,031	2,637	5,656
1984	2,960	[1] 2,432	3,193	8,395

[1] Nine months ended March 31, 1985.

The outlook for 1985 and beyond is grim. Preliminary estimates from the USDA/FAS indicate that for the period of July 1984–February 1985, imports of dried apricots reached a record 4,351 tons; a 46% increase over the same period one year ago. And, the indication is that there is no let up in sight. The 1984 apricot production estimates for Turkey show a harvested crop of 195,000 metric tons, (in comparison with U.S. 1984 production of 123,000 short tons), a large percentage of which will be dried and exported.

If the present trend continues, the 1985 dry yard demand for domestically produced apricots will be less than 2,500 dried tons, a 28% decrease in demand in a single year.

The import situation presents a terminal problem for domestic dried apricot producers. Unable to compete with the low import price, they will be forced to seek other utilizations. Should those prove unavailable, the grower would soon be out of the apricot production business.

At stake is the stability of the U.S. of apricot industry. Currently, California produces 98% of all domestically produced apricots. As the domestic dried apricot market shrinks, canners, freezers, and fresh shippers of apricots are pressured to accomodate the surplus fruit. That fruit which cannot be placed will go unharvested.

Immediate action is needed! The domestic dried apricot producer is fast approaching extinction. Measures such as import quotas and/or tariffs must be considered as a reasonable means of preserving the fragile domestic apricot markets.

Import Statistics by California Olive Growers Council

OLIVE IMPORTS

Following is a recap of olive imports to the U.S. A comparison of pack style and quantity, by quarter over the past several years is illustrated. This information deals only with black ripe olives which take away from market position from California black ripe olives.

Grower's developed the market with their own dollars and now foreign product is continuing to slice off a bigger chunk each year. It is estimated that imports enjoyed 14% of the total black ripe market in 1984.

Imported Spanish olives (stuffed queens, stuffed manzanillo, whole greens) are of less concern. Spain has controlled that part of the U.S. market for years. To better understand the impact of total olive imports, refer to the enclosed schedule listing olive exporting countries and their total exported tonnage by years.

BLACK RIPE OLIVE IMPORTS

The following schedule lists imported canned black ripe olives and bulk olives processed into black ripes. All figures converted to 24/300 standard case.

IMPORTS BY QUARTER

Year	August/October	November/ January	February/April	May/July	Total
1981–82	—	—	—	—	842,460
1982–83	148,626	31,357	151,165	207,909	539,057
1983–84	208,427	206,195	340,355	379,952	1,134,929
1984–85	[1] 290,358	md	—	—	—

[1] Of the 290,358 cases imported during Aug-Oct quarter of 1984, 54,359 cases went to the retail consumer trade. The balance, 235,999 cases went to food service

SUMMARY

The major supplier of imported black ripe olives is Spain. She has 5.5 million acres compared to California's 34,000.

The U.S. has extremely strict food processing standards. We have no control over foreign canned black olives. Olives, a low acid food product, is susceptible to botulism if proper canning methods and practices are not adhered to. What record do we have of what they do?

Further, we also know that certain ag chemicals are used in foreign countries that are not allowed in the U.S. How thoroughly do we check for residues at port of entry?

There are subsidies paid to foreign growers through various means. These are difficult to identify and prove. Yet they continue to happen. This is not free trade. It's not even fair trade.

Spain is the predominant supplier of all olives imported to the U.S. In 1983, Spain accounted for 88% of the total imports valued at $77 million.

IMPORT STATISTICS BY CALIFORNIA CANNING PEACH ASSOCIATION

APRIL 8, 1985.

Mr. LES ROSE,
Apricot Producers of California,
Livermore, CA.

DEAR LES: Please include in your statement on April 12th before Senator Wilson's hearing on trade, the following:

Foreign government subsidies, especially by the European Community, have eliminated the European market for canned cling peaches. Now the subsidized producing countries are increasing their sales into Canada and the U.S.

Exports have declined 92% in four years going from over 500,000 cases per year in the European Community to 45,000 cases this past year.

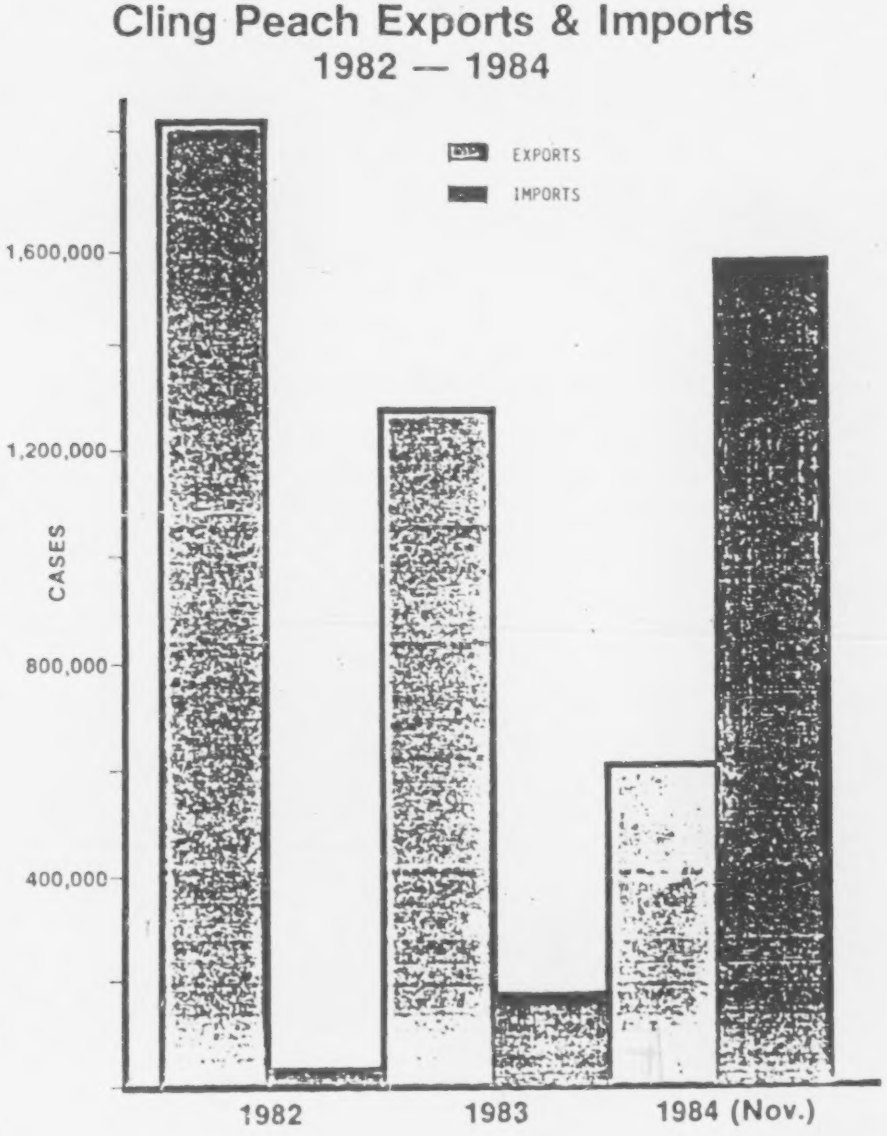
Imports in three years gained from less than 15,000 cases in 1982 to over 1,600,000 cases in 1984.

We can compete if permitted to play with the same rules.

Sincerely yours,

RONALD A. SCHULER, *President.*

Enclosure.


Cling Peach Exports & Imports
1982 — 1984
EXPORTS
IMPORTS
1,600,000
1,200,000
CASES
800,000
400,000
1982
1983
1984 (Nov.)

Statement of Henry J. Voss, President, California Farm Bureau Federation

Mr. Chairman, my name is Henry J. Voss. I am a California farmer, president of the California Farm Bureau Federation, and a member of the American Farm Bureau Federation Board of Directors.

The California Farm Bureau Federation represents nearly 100,000 member families involved in the production of over 200 different crops in the State. It is on behalf of the federation that I outline Farm Bureau's position regarding the export title of the farm legislation designed to replace the Agriculture and Food Act of 1981 which expires this year.

Export legislation is a priority issue for Farm Bureau. California's agricultural producers are highly dependent on international trade, with 25 percent of the value of State's farm product going to foreign markets. One out of every three acres of agricultural land in California is used to produce goods for the export market.

U.S. agricultural exports made solid gains during the late 1960's and throughout the 1970's. However, during the 1980's our farm exports have fallen sharply from a value of nearly $44 billion in U.S. fiscal year 1981 to an estimate of only $35.5 billion this year. California has experienced a similar decline, with the value of agricultural exports dropping from a high of $4.2 billion in 1981 to $3.15 billion in 1983. More importantly, the U.S. share of total world agricultural trade has dropped.

U.S. farmers are concerned over this turn of events. Analysts list among the causes (1) world recession; (2) the global debt situation; (3) the strength of the U.S. dollar relative to other currencies; (4) U.S. agricultural price support policies; (5) growing protectionism; and (6) unfair trade practices. We realize there are a number of other contributing factors.

For California's producers of specialty crops, factors such as the strong dollar, growing protectionism, and unfair export subsidies have meant a loss in domestic market share and profitability as well.

It is our concern that U.S. foreign policy and defense considerations also contribute to the decline in agricultural exports. The share of total foreign economic assistance used for food aid has shrunk since the early 1970's. Budget expenditures on foreign military assistance have enabled nations such as the EEC and Japan to direct public funds to their farm support programs rather than to military programs. In the U.S., however, large increases in defense spending have exacerbated the budget deficit, increasing interest rates and driving the value of the dollar to new heights. By providing military might for NATO countries and other allies, and not requiring those countries to contribute their fair share, we are harming our agricultural economy.

Farm Bureau supports U.S. negotiators in their efforts to resolve trade issues. We recognize that higher living standards depend upon increased economic growth of the United States and its trading partners, together with mutually beneficial trade among nations. Thus, Farm Bureau supports efforts to liberalize international trade. It is becoming more difficult, however, for our farmers to maintain a freer trade stance as protectionism surfaces all over the world and unfair trade practices are used by our competitors.

Public policies in the EEC have led to huge surpluses and to subsequent export subsidies aimed at disposing of these surpluses. The EEC's common agricultural polciy restricts market access for our products in Europe and increases competition both at home and in mutually targeted foreign markets.

It is our objective to maintain and strive to increase market share by remaining internationally competitive in agriculture. In order to maintain international competitiveness for American farmers, U.S. policy must redress unfair trade practices and enhance market access while enabling prices to respond to world market fluctuations. A farm policy that reforms pricing and stock policies must contain provisions for enhancing exports and ensuring protection from unfairly subsidized foreign goods.

Some U.S. farmers are asking that our Government meet the use of foreign export subsidies with similar U.S. program. Thus far, Farm Bureau has supported only limited use of such subsidies to let our competitors know that we can play the game too. However, we see frustration building as U.S. market share is perceived to be lost to subsidized exports of competing countires. The situation is not healthy in economic or political terms.

The U.S. Congress has taken note of this capture of markets by the use of export subsidies. Section 1201 of the Agriculture and Food Act of 1981 directed the Secretary of Agriculture to formulate a special standby export subsidy program for possible use to neutralize the effects of foreign subsidies. Thus far, this authority has rarely been used.

California farmers, particularly producers of fruits, nuts and vegetables, have been concerned with the need for better access to the Japanese market. Discriminatory tariffs, burdensome phyto-sanitary restrictions, and quotas greatly limit the potentially lucrative market across the Pacific. While we were pleased that Japan increased the beef and citrus quotas after long and tough negotiations, they need to go much further in increasing access to their market. The Japanese market for in-shell walnuts, peaches, plums, and nectarines is virtually closed to California because of quarantine regulations against potential codling moth hosts. Although aphids infest Japanese vegetables, a single aphid detection on a shipment of lettuce can terminate an entire transaction. In some situations where California has chemical fumigants available to fight plant pests, Japan's strict residue requirements may prohibit their use. The food additive potassium solbate, considered safe in the U.S., is allowed for use on prunes entering Japan but not figs.

In the United States we do not dictate our rules for pesticide use on foreign producers. Imports of farm produce must meet reasonable chemical residue tolerances, but we do not require that foreign producers abide by U.S. production standards.

An international effort must be made to bring plant pest and chemical requirements into line. Decisions regarding chemical use and quarantines should be based on sound scientific evidence, not political judgements.

Currently, developing countries take about one-third of U.S. farm exports and may well be our best potential customers. As their economies grow, we have more market opportunities. Therefore, we need to do what we can to help develop their economies through food and economic assistance programs.

It is much easier to define the problems facing us in world markets than to find feasible solutions to those problems. I would like to share with you some thoughts regarding certain ways that some of the problems facing us in world markets might be addressed in a practical manner.

Two traditional ways of enhancing exports have been through the judicious use of CCC export credits and through the use of the Public Law 480 or Food for Peace Program. These programs should be continued and improved. As a member of the Carlucci Commission on Foreign Assistance last year, Bob Delano, president of the American Farm Bureau Federation, recommended that Public Law 480 export tonnages be doubled over present levels and that multi-year funding be made available to Public Law 480 recipient countries. In view of the need for food, which has been made worse by the African political and famine situation, we believe that a much stronger Public Law 480 program is justified and will lead to better U.S. cash markets as economic development improves in recipient countries.

We in California see a need to explore the possibility of extending Public Law 480 to include specialty crops. Items such as nuts, dried fruits, and canned fruits and vegetables should be considered for use in the Food for Peace Program.

Regarding CCC export credits, it is regrettable that the CCC credit revolving fund, which was part of the 1981 farm bill, was never funded and activated. There are still valid reasons for incorporating the revolving fund in the 1985 farm bill with funding made available to make it an effective export tool.

An intermediate CCC Export Credit Program is needed to take care of export credit needs for terms of 3-7 years, as provided for in the Agricultural Trade Act of 1978. This legislation should be more fully utilized.

The Blended Credit Program, which unfortunately has been saddled with the requirements of the cargo preference law, needs to be made a part of new farm legislation with an exemption from cargo preference.

We believe all agricultural exports, whether commercial or Government assisted, should be exempt from cargo preference requirements. There are other ways of financing a strong merchant marine without hurting agricultural exports. If a strong merchant marine is a strategy for defense, then possibly we should fund the cost of using U.S. flag ships in the military budget. We should not hinder our farm exports in our efforts to have a stronger American flag fleet. Farm Bureau will strongly support legislation to exempt agricultural products from the cargo preference law.

Trade with some countries is limited by their cash flow or balance of payments problems. Barter opportunities may exist with those countries having oil or other commodities available for export in exchange for imported U.S. agricultural products. We should not dismiss any such opportunities, but rather should seek to gain exports where such opportunities exist.

The relatively high value of the U.S. dollar has compounded California producer's difficulties with low-priced imports and impaired exports. Fiscal restraint must be a factor in designing any Government program, including the farm bill, in order to reduce the Federal deficit and restore a more reasonable international value of the dollar.

Our trade negotiators must have the tools they need and our strong support to gain better market access and to resolve unfair trade practices. Export subsidies that erode our market share overseas and threaten the profitability of domestic producers have persisted despite efforts to address these illegal programs through the GATT.

In supporting farm legislation that calls for greater market orientation and flexibility, we must also ensure that our agricultural interests are protected from unfair trade practices by our competitors. To ask our farmers to withstand a reduction of Government support programs without affording them the benefit of trade remedy assistance would be unreasonable and unacceptable.

In order to recapture markets lost to subsidized exports from competing nations, we should consider what might be called a Bonus Export Program.

Under such a program, bonus tonnage of farm commodities would be available from CCC-owned commodity stocks to lower U.S. export prices, thus offsetting the effect of subsidized exports.

Mr. Chairman, these are some of the recommendations that we would like to see examined and considered as the export title of the 1985 farm bill is written.

I believe that in previous legislation the production side of the equation has been given more attention than the export side. In the new farm bill, we need to focus strongly on the export title.

We must be more aggressive in export markets. This will require the devotion of considerable resources to exports, but, in the long run, dollars spent on enhancing trade will be much more effective than domestic support programs. By expanding exports and curbing unfair imports, our agricultural industry will have a chance to grow and excell on its own merit.

Thank you for your consideration.

STATEMENT OF LAURENA JOHNSON, PRESIDENT OF CALIFORNIA WOMEN FOR AGRICULTURE

My name is Laurena Johnson and I reside in eastern Fresno County. I am a fourth generation native to the area where my family and I have a commercial cattle operation. Currently, I am President of California Women for Agriculture, an organization of 5000 women, both producers and consumers who are dedicated to the survival of agriculture. CWA greatly appreciates the opportunity to present testimony to Senator Wilson and his committee on the proposed trade section of the 1985 Farm Bill. Keeping in mind that we do not represent any specific commodities we take, and will present, a more overall view of trade following our concept that what affects one segment of agriculture affects all of us.

The policy on trade and marketing adopted by California Women for Agriculture states: "If California agriculture is to remain strong and viable, California Women for Agriculture stresses the need for fair and equitable trade and marketing legislation that includes the following: 1. Expansion of export markets for California agriculture. 2. Free trade with other countries, or relief from subsidized imports. 3. Quality standards of imported foreign products should meet the same standards required of U.S. products." In addition, in January, 1985 we adopted and endorsed the Longterm Farm Policy Resolution as formulated by the California Farm Policy Committee. That resolution calls for two items: 1. A policy that encourages our farm products to move freely to the markets of the U.S. and the world and 2. Policy that leads to a farm program which would stabilize the economics of our industry; without unrealistically high supports, loans, and target prices which lead to unneeded production and resulting burdensome surpluses. We, as an organization stand by and reaffirm our support of these statements.

In more specific terms and in addressing today's trade issues, some of our ideas and suggestions would be:

1. Our strong dollar, due to our great federal deficit spending, is by far the most harmful element in our trade position. We must have cuts for all segments of the federal budget. Agriculture is willing to take its share of cuts but that must be accompanied with similar action in all other areas of spending.

2. One issue that the members of CWA feel strongly about is that imported products must be required to meet the same health and quality standards that U.S. commodities do. When our California farmers have worked long and hard to comply with pesticide and health standards and have used their own money to promote their quality product, it is totally unacceptable to allow into our markets, imported products of substandard quality and that have not come close to meeting our pesticide and health regulations. We need this language in the 1985 Farm Bill.

3. Cargo preference requiring exports under U.S. flagships should be abandoned. It increases shipping costs and hinders our effectiveness to compete on the world market.

4. Public Law 480, Food for Peace, should be continued. However, it should be reemphasized that the program be used as a tool for market development rather than a balance of payments aid.

5. Use of an agricultural embargo should only be used in the case of a real national crisis. The use of the embargo as a political tool is not beneficial and must not be allowed to happen. As producers, we feel that food should be available whenever it is needed throughout the world and foreign countries who have contracted with the U.S. have a right to receive those commodities.

6. The United States must remain diligent in calling for the removal of restrictive foreign trading practices. We must have fair trade agreements. Language directing the President to press for liberalized access to foreign markets and clarification of the subsidies code under the General Agreement on Tariffs and Trade could be incorporated into the Farm Bill. We must consider the imposing of tariffs on commodities benefiting from subsidies. When farmers that receive subsidies in foreign countries can raide, harvest, package and ship into the U.S. for less than we can grow the crop, it is only equitable and justifiable to require a tariff on these imported, subsidized items. We understand that there currently does exist the mechanism to carry this out. However, we would ask for a review and evaluation of the past effectiveness. It seems that there has been a lack of resolve, determination, and perhaps, "guts" to use the means available to insure equitable treatment in the marketplace.

The importance of a fair trade policy to the economic well-being of California cannot be stressed too strongly. Consider: California ranks in the top 3 states in the nation in farm exports; one in every three California acres produces for overseas markets; approximately 25¢ of each agricultural dollar in the state is derived from export sales. Also, consider the tremendous loss when subsidized imported commodities come into our state—robbing our farmers, transporters, processors and retailers of the profits when that imported product is preferred, due to the cheap, subsidized cost, by the consumer.

In closing, I'd like to reaffirm our belief in the American farmer and in particular, the California farmer, who is the most inventive and productive segment of our society. Many of our producers are experiencing the most disastrous and financially difficult times since the depression of the 1930's. The 1985 Farm Bill must help promote both domestic and foreign markets so our farmers can make a profit when they sell their harvests. It is mandatory that our commodities be received in that market place on a fair and equitable basis with foreign goods. Fairness is the key!!

I and California Women for Agriculture thank Senator Wilson for this opportunity and urge him to continue to be a strong and vocal advocate for this great state's and nation's number one industry—agriculture.

STATEMENT OF JACK STONE, PRESIDENT, WESTERN COTTON GROWERS ASSOCIATION

My name is Jack Stone. I am a cotton farmer in Stratford, California, and I am President of the Western Cotton Growers Association.

Our organization represents more than three thousand cotton growers in California, the second largest cotton producing state in the nation.

For the past two decades we have been trying to help write a cotton program that is truly market oriented. One that is world competitive and one that will not build up huge government stocks.

Back in 1933 when the U.S. first started to cut back production (which no other nation has done as a matter of national policy) total world consumption of cotton amounted to 27.5 million bales of which 13.8 million bales, or 50%, was U.S. cotton.

By 1963 world consumption had increased to 50.0 million bales but the U.S. share had declined to 13.1 million bales or 26%.

This trend has continued and in 1984, world cotton consumption reached 69.7 million bales while the U.S. share amounted to only 11.8 million bales or 17%.

This is not progress! Now is the time to write a real world competitive cotton program.

Consistent with that objective I would like to emphasize three important points:

1. OUR DEPENDENCE ON EXPORT TRADE

A reality of our agriculture today is the great level of production. The United States produces more than twice as much cotton as is required to satisfy domestic needs. That means that more than half of our production must be exported! Therefore, any farm program must definitely be market oriented and world competitive. There can be no floors that would allow any nation to consistently underprice our product.

2. THE HIGH DOLLAR VALUE

The over-valued dollar is hurting U.S. agriculture more than all other items combined. World cotton prices have dropped about the same amount the dollar has increased. And, although U.S. cotton is maintaining a share of the export market, it is being forced to do so at a loss which, if not corrected soon, will lead to bankruptcy as it already has for many farmers.

3. UNCONTROLLED FOREIGN TEXTILES

The U.S. domestic cotton market is being devastated by textile imports. In 1983 alone, not only did textile imports displace $550 million worth of American grown cotton, the reduced demand caused by these imports lowered the price of cotton an estimated 9¢ a pound. The lost markets and lost revenue on cotton sold totaled $900 million.

It is ironic that at a time when American cotton farmers are spending $20 million annually for research and promotion to increase consumer demand, it is foreign growers who are reaping more and more of the payoff from this effort. While the American public is presently consuming cotton at an annual rate of 8.2 million bale equivalents—the highest in 12 years—U.S. cotton supplies only 5.2 million of that total.

With these points in mind, we make the following recommendations:

Fiscal Policy.—We urge Congressional, Administration and Federal Reserve Board actions that will restore a reasonable balance between the value of the dollar and other currencies, and we call on the President to expedite appointment of a bipartisan commission to recommend ways to reduce the federal deficit and restore sound fiscal policy.

Section 22.—The Western Cotton Growers Association joins with the National Cotton Council in urging the Secretary of Agriculture to undertake a Section 22 action to relieve the interference of textile imports with the operation of the government cotton program and to prevent further reduction of domestic cotton consumption due to these imports.

Negotiations.—We call on U.S. government officials to negotiate forcefully and firmly to assure that U.S. cotton, cottonseed, and their products have reasonable access to foreign markets and urge the administration to designate cotton industry representatives to act as advisors to U.S. negotiators.

Nontariff Barriers.—We also urge that U.S. government officials work for reduction of nontariff barriers to increase the potential for U.S. exports and improve the U.S. trade balance.

Most-Favored Nation.—We believe the Administration and Congress should take necessary action to accord Most-Favored-Nation treatment to certain countries when indications are that such action would improve prospects for exporting U.S. cotton, cottonseed and their products to these countries and would not adversely affect the interests of the U.S. cotton industry.

CCC Revolving Credit Fund.—We support the authorization of an export credit revolving fund and credit guarantees—unlimited to countries with good records of timely loan repayments; as well as full and adequate funding of foreign market development for agricultural products. In addition, CCC funds or an equal value of commodities should be used for export activities to assist in the export of U.S. agricultural commodities adversely affected by credit subsidies or other unfair trade practices of foreign countries.

Finally, as we move to market oriented farm legislation and elimination of high loans and target prices, farmers are going to depend on international trade to an even greater extent than currently. I want to again reemphasize the importance of this country undertaking strong negotiations with our trading partners, to give American agriculture a fair market in which to operate.

We in cotton and, I'm sure those in most other commodities, are prepared to do business in a market oriented system as long as we know we are going to get a fair shake in the import/export market.

STATEMENT OF WILLIAM K. QUARLES, PRESIDENT, CALIFORNIA-ARIZONA CITRUS LEAGUE

I am William K. Quarles, president of the California-Arizona Citrus League. The league is a voluntary non-profit trade association comprised of marketers of approximately 75 percent of the citrus produced in California and Arizona.

Exports are of vital importance to the California-Arizona citrus industry. Last year we exported approximately 40 percent of the crop amounting to 375 million dollars in both fresh and processed citrus to approximately 59 nations around the world. It need not be stated what would happen to the economic interests of citrus growers if our foreign markets were subsequently closed off and that volume of citrus had to be marketed domestically. The result would be clearly predictable, even with a Federal program to provide for orderly marketing.

Our problems of exporting citrus are primarily those of market access. We in the California-Arizona citrus industry are not without competition. In the Northern Hemisphere, citrus is produced in every Mediterranean Basin country with the exception of Libya. It is produced in Korea, the People's Republic of China, Japan, the Republic of China and Mexico. In the Southern Hemisphere citrus is produced in Chile, Brazil, Argentina, South Africa and Australia to name a few countries. The California-Arizona citrus industry produces only about 6 percent of the total world production of citrus.

We are high cost, but high quality producers. We do not run from competition. All we ask is a level playing field, to be granted market access and to be treated equally with other competitors in the international markets. However, we do not have a level playing field. To cite an example in the European community during this time of year we must pay a 20 percent duty on California oranges exported to the community while Spain, right next door, pays 12 percent, Egypt, Israel and Lebanon pay 8 percent and Morocco, Tunisia and Algeria pay only 4 percent. Due to this discriminatory tariff preference scheme, the California-Arizona citrus industry has been gradually squeezed out of the European community's market. In 1969, the California-Arizona citrus industry shipped 3.8 million cartons of oranges to the then current makeup of the European community. In contrast, in 1984 we supplied 9,000 cartons of oranges to these same countries. Correspondingly, the U.S. share of the imports of fresh oranges has decreased. In 1969, the U.S. share of the original members of the community's imports of fresh oranges was 4.3 percent. By 1982 our share had decreased to 0.2 percent.

The Japanese import quota on fresh oranges is well known. In addition, we must pay a 40 percent import tariff during this time of year. Compare this to the 5.1 percent ad valorem equivalent the U.S. charged on imported oranges in 1984. A tremendous amount of progress has been made during the Tokyo round of multilateral trade negotiations and supplemental negotiations with Japan that followed. Japan is moving in the right direction. However, the quotas and exorbitant duties are still in place.

Also, from time to time other non-tariff barriers can become equally insidious. In 1976, Japan unilaterally decided two of the pesticides our industry was using on all domestic and exported citrus were illegal. At that time one of our industry's marketers, Sunkist, had four ships in the pipeline, one unloading in Tokyo, one a few days sail outside of Tokyo, one a few days sail outside of Long Beach and another loading in Long Beach. Before the curtain was completely closed, two of those shiploads were worked through the marketplace, one was diverted to the Soviet Union and the other was used to make lemonade out in the South Pacific. Sunkist's insurance companies are only now getting over that. It was two years before Japan approved use of the materials. And, we are now hearing from Japan that one of the same materials may well be called into question again. This is a pesticide that has been approved by the World Health Organization, the Food and Agricultural Organization of the United Nations, the United States and all other developed countries in the world. Trade barriers can and do take various forms. The United States must be prepared to deal with them.

There is a growing sentiment in the United States that we should seek freer trade bilaterally. This suggests that the multilateral approach doesn't work. Certainly there is good reason to raise the question. I mentioned earlier our problems with the European Community. After 15 years the United States finally undertook to bring the matter to the GATT for resolution. A GATT panel heard the case and issued a decision favorable to the California-Arizona citrus industry. Accordingly, the European Community was directed to take steps toward mitigating the adverse effects of the preferences. The European Community, however, refused to take such steps and instead undertook vigorous efforts to block the adoption of the panel decision by the

GATT Council at the Council meeting on March 12. Unless the Council of the EC adopts that panel report and implements it, the only thing left for the United States is retaliation. This suggests the dispute settlement mechanism of the GATT, if not the GATT itself, may not be working.

The bilateral approach is of great concern as well. Recently the U.S. position has been that if we set a free trade example it will pull the rest of the world along. This has not worked. The free trade area with Israel is a case in point. With regard to trade in citrus it is simply a one-way street. Tariffs on lemon oil, our most valuable lemon processed product will be eliminated in favor of Israel immediately upon implementation of the treaty. Quotas on fresh oranges and lemons will be eliminated within four years. On the other hand, there is no schedule for elimination of Israel's tariffs on any horticultural products. Reports indicate the only reference to tariffs on Israeli horticultural products in the proposed agreement is that they will be frozen until 1990.

From this, and the Caribbean Basin Initiative, it is obvious trade is now becoming a foreign policy instrument. Currently a free trade area is being discussed with Canada. Once a free trade area is completed with Israel and Canada, it would be a political impossibility to deny a similar arrangement with Mexico upon their request. Therein lies a major threat to California agriculture. It is for this reason we strongly support an effort to make the multilateral approach work. There is no reason why our trading partners cannot be signatories to the GATT and to commit to a workable dispute settlement mechanism.

In international trade, we must recognize that countries look after their own interests. Consider again the discriminatory tariff preference scheme of the European Community on citrus that I mentioned earlier. The GATT panel has clearly shown the scheme is illegal, yet the European Community simply refuses to adopt it because it does not satisfy their current political interests. Similarly, the Japanese fresh orange quota is a blatant violation of Japan's commitment under the General Agreement on Tariffs and Trade. While Japan is moving in the right direction, Japan refuses to dismantle the quota system for its own political reasons.

The bottom line in the farm bill is that if we are going to move toward market oriented policies for the major commodities instead of Federal outlays to support farmers incomes, it is important that U.S. farmers have fair access to the international marketplace. At present, our trading partners will provide that access only if it is in their interest to do so. It is believed that in the future the United States must have the tools available to be sure our trading partners are well aware it is in their interest to provide market access for U.S. farm products. There is no question that U.S. agriculture will face major barriers to trade in the future. The U.S. Government must be able to move swiftly and powerfully to deal with those barriers. It should have all conceivable tools available to countervail or retaliate against offending trading nations be they with subsidies, embargos or anything in-between.

It is of crucial importance not only that the United States have the tools available but that the administration has the responsibility to use them in a timely fashion. The farm bill should not only provide the tools, it should specify triggers, circumstances which would require the administration to use the tools in a timely fashion. It is of no help to a commodity group damaged by subsidized imports in 1985 for the United States to countervail in 1987.

Finally, a comment on the impact of the strong dollar. The tremendous increase in the value of the dollar vis-a-vis foreign currencies has had drastic ramifications on our ability to export while stimulating imports. For example, the price for a carton of oranges which left a packinghouse in 1980 with a value of $5.00 would have an equivalent value of 1,015 Japanese yen. Assuming we have not changed our price since 1980, that same carton of oranges this year would have anequivalent value of 1,298 yen, almost a 30 percent increase. Thus, disregarding the effects of inflation, while the grower would be getting the same price per carton, the Japanese buyer must pay 30 percent more for the same carton of fruit.

Again, using the same $5.00 carton, in 1980 that carton would have an equivalent value of 2.10 British pounds. In 1985, that $5.00 carton has an equivalent value of 4.60 British pounds, i.e., twice as many pounds for the same carton of fruit. In the Netherlands, our largest European orange market, there has been an appreciation of 77 percent during this time period and in France which was traditionally our largest lemon market in Europe, the appreciation has amounted to over 125 percent.

The flip side of more expensive exports is cheaper imports. Imports are cheaper and they are cheaper at a time when our Federal Government has embarked upon programs previously discussed to make access to our markets easier for foreign competitors.

One of the major stumbling blocks to a balanced trade is the relative strength of the dollar. It must be dealt with.

STATEMENT OF STEVEN W. EASTER, VICE PRESIDENT, CALIFORNIA ALMOND GROWERS EXCHANGE

Thank you very much for this opportunity to present the views of the California Almond Growers Exchange regarding the 1985 Farm Bill. This Hearing has been called principally to discuss Title I, the export section of the Farm Bill. We will present our views on the contents of Title I of the Farm Bill, but we also believe there are two even more urgent subjects that need to be addressed by the U.S. Senate in its effort to assist the farmers of this country. The first of these is the impact of the overvalued U.S. dollar on the U.S. economy, and the second is the ability of farmers to use self-help marketing orders to mitigate some of the problems that are being caused by the current farm depressions.

To begin with, I believe it is important for all of us to recognize that no Farm Bill, however artfully or skillfully crafted, can hope to overcome the principal problem in agriculture today. This problem is severe and far reaching. It extends beyond agriculture to all industries of this country. It is the tremendously overvalued U.S. dollar. We are in a situation where U.S. goods are not competitive because of the extremely high prices in terms of foreign currency that must be paid for our products. At the same time, our consumers are happily buying foreign goods because they can be purchased for such low prices in the domestic market. This combination bodes ill for the total economy. It is hard to conceive how the United States can maintain either a viable farm economy or a viable general economy if this situation persists. Consequently, we must say that far more important that any Farm Bill is the effort that the Senate, the House, and the President must make on providing meaningful reductions in the deficit. The most beneficial farm bill will be a major reduction in the deficit. We sincerely hope that a plan will be devised to provide real reductions in the deficit over the next few years in order to have a meaningful impact on the overvalued dollar. We submit that the most urgent task the Senate has this year is to come to meaningful short and long term deficit reduction. Otherwise, the total economy of this country will be devastated.

Another disturbing area of contention is the current controversy over the uses of marketing orders, particularly in the fruit and vegetable industry of this country. We believe it is important that the use of marketing orders be addressed in the 1985 Farm Bill and that it be reaffirmed that these orders are a viable tool enabling U.S. agriculture to help farmers to overcome the serious depression that currently exists. Experience has shown that marketing orders have been extremely effective in a variety of economic conditions. Even at that, there are still some who argue that the marketing order legislation was depression-born and should be reviewed very carefully. Marketing orders have proven themselves to be extremely useful tools in all types of economic conditions, are beneficial both to farmers and consumers, and are reviewed continuously by several administrators. However, even those who extoll the argument that this is depression-born legislation should realize there is no more appropriate time for its use than during the current severe hardship that our growers are undergoing.

The federal marketing order system provides an extremely valuable program of varied types of volume control, quality control, promotion, production research, and grade and size standards that have been very beneficial in building confidence among consumers and providing a consistent supply of high quality fruits and vegetables at a reasonable price to consumers. At the same time, marketing orders have served to provide assurance to growers of permanent crops that they will be able to depend on some stability in their industries for long term investment, thus making their products more available and more plentiful to consumers.

In recent years, the current Administration has taken a stance that it appears to favor the elimination of marketing orders over a period of time. We contend that such elimination would be detrimental to both the producer and consumer and, besides that, would have no effect in the effort to balance the federal budget. The costs of the programs are borne by the producer and only a very small adminstrative cost is borne by the Department. As a result, a strong statement favoring the continuation and strengthening of marketing orders is important for the 1985 Farm Bill.

In regard to the Title I, or export section of the Farm Bill, there are measures that can be taken to assist the current plight of the farmer. These measures will be of less assistance if something is not done about the dollar value, or if the principle of marketing orders is abandoned. But we understand the desire of the Senate to do all that is possible to assist farmers; consequently, we feel that it is important to point out the areas that are vital to consider in Title I of the Farm Bill.

We believe that a three-pronged attack on the problem should be contained in the Farm Bill. First, we need to emphasize the promotion of our agricultural trade. There is a need to augment current efforts by the Foreign Agricultural Service in the area of market development. The Foreign Agricultural Service's system of agricultural counselors and promotional programs has been invaluable in maintaining foreign markets and in expanding the consumption of U.S. products abroad. With the exemplary history that this program has shown over its years of existence, it should be looked upon as an area that can be further used to the benefit of not only agricultural producers but all of the U.S. in improving the agricultural economy. We must continue to promote our products abroad and this program has aided many producers of agricultural commodities to effectively promote and expand the consumption of their product.

When you compare what the U.S. is doing to what all of our competitors are doing based upon a dollar volume of exports, we are well behind their total effort. We must continue to expand promotional efforts so that U.S. products are well represented on a worldwide basis. We also need to maintain the presence in the foreign countries of our agricultural counselors and attaches. Without their valuable assistance in market development and market maintenance, many of these efforts would be well behind where they are today. I contend that the employees of the Foreign Agricultural Service are of the highest value to the agricultural economy. These are the people who serve to expand our understanding of foreign markets, and to extend U.S. agricultural products into the foreign markets. We urge a strong section in Title I expanding the influence of the Foreign Agricultural Service, and expanding the funding and scope of the programs for foreign market development.

Another area that goes hand-in-hand with agricultural promotion is that of liberalizing agricultural trade. Too often we find that we produce a product that is in demand in a foreign country, and in many cases not produced in that country or not available in sufficient supplies, only to find that the government of the country through one means or another is prohibiting or severly restricting entry of our product into their country. These trade barriers are real, they exist, and they hamper trade. Without their elimination or dramatic reduction, the use of the trade promotional tool is hamstrung. What sense does a 50 percent duty against almonds in Korea make, or even a 35 percent duty against almonds in Taiwan, or the even higher duties that exist in other areas such as Brazil and India? These countries must be made to understand that the United States is not going to continue to be the importer for the world. We can efficiently produce our commodities and we can export them worldwide, but we cannot compete with the treasuries and governments of our foreign trading partners. Our U.S. government must enter this arena strongly and must find ways to break through these barriers if we are to expand agricultural trade or any trade of U.S. products. The trade Title must contain an extremely strong provision, not just memorializing, but demanding that the executive branch negotiate freer access of our products into foreign countries throughout the world so that we may benefit from many of the markets that are now closed to us but which at the same time take advantage of the lucrative United States market to sell their products.

The final area that should be mentioned relates to our ability to overcome unfair trade tactics by competitive nations. Our country has too often been willing to accept a slap in the face from one of our trading partners and do little or nothing in retaliation. This situation must stop if we are going to maintain or expand our trading posture. In fact, a provision of Title I should include the authorization for export assistance to commodities that must compete against subsidized agricultural exports of other countries. It is only through the authorization and authority for such assistance of U.S. farm products that we can hope to be looked upon seriously in the international arena. Our trading partners have heard so many of our threats in the past that they have become immune to them, particularly in view of the fact that so very often they are not followed through. Tools must be provided for effective action by the United States in behalf of its producers.

I thank you very much for your kind attention. I appreciate this opportunity to present the views of the Almond Growers Exchange and implore you to remember that while there are no simple answers, we must all begin working together to find a series of answers to the depressed agricultural situation in this country. We believe that the Farm Bill can be helpful but only if our country is willing to do something about the overvalued U.S. dollar. If it is, I then believe that we can look upon the tools we have recommended of effective agricultural marketing orders, increased promotional efforts through the Foreign Agricultural Service, improved trade access, and selective export aids for the U.S. products that must compete with other countries' subsidized products, to achieve a strong and prosperous agriculture once again in this country. Thank you very much.

Statement of Roger J. Baccigaluppi, President, California Almond Growers Exchange

The United States is experiencing the greatest agricultural depression of this century. Salvation will not be found in the 1985 Farm Bill, no matter which version is adopted. Whether it's the Administration's program, or a much less costly program from the standpoint of the taxpayers, or a program that costs many times the Administration's proposal—no 1985 Farm Bill is going to solve the great problems that have developed in this country in recent years, nor is it going to solve any of the underlying problems in agriculture.

Other segments of the economy are also suffering in what is a very major crisis, despite what some people seem to want to believe. The future will be altered—drastically changed—unless this crisis is promptly addressed.

Very strong words, but I believe them and so do many others, both Republicans and Democrats in the House and the Senate. The problem, as I see it, is that the public perception is that the economy is doing just fine. Perhaps a few farmers are being hurt, but they always cry, perhaps a few industries that export a lot, but the economy is doing just fine. If that, indeed, is the public perception then why should Congress take the action they must?

Congress must take that action because our U.S. economy—the greatest economy in the world—has started a slow decline which is now accelerating. Just four years ago, in 1981, our merchandise trade deficit amounted to only $28 billion. Three years later, in 1984, we were importing $130 billion more than we exported, and this year it is expected to reach about $150 billion. So, you say, what's the problem with importing more than five times as many Toyotas, Sonys, agricultural products, and Airbuses, to name just a few products, than we did four years ago? The most alarming thing about all this is the trend. If it was five times as many products imported in the last four years, will it be ten times as many in the next four, and 20 times as many in the next eight or ten years?

Two problems have historically impacted our import/export situation:

1. The United States has fewer trade barriers, tariff and non-tariff, than anywhere in the world. Our trading partners, on the other hand, have all sorts of barriers to free trade on U.S. products. It's a problem that we in industry and agriculture have to keep working on along with our government.

2. The economies of most of the countries of the world have suffered badly during recent years, tending to hurt our sales to them, but are now beginning a gradual improvement. That's a plus.

These two problems pale by comparison with what the grossly overvalued dollar is doing to choke off our exports and stimulate imports. Recently, someone from the U.S. Export-Import Bank was in Sacramento and suggested that exporters in the United States were using the overvalued dollar as a crutch in explaining why they weren't able to export more. This gentleman must be living in some ivory tower somewhere. Consider the facts. In August 1980 it took 2.37 U.S. dollars to purchase one British pound. By the end of February it took only 1.06 dollars to buy one pound.

Let's assume, for a moment, that we were selling almonds for $1 per pound in 1980, and we'll also assume, for just a moment, that we haven't changed our price since then. If you disregard what inflation has done to our purchasing power, with the dollars we are receiving from the British, we are getting the same amount as we got in 1980. The British consumer, though, because of the increase in the value of the dollar and the decrease in the value of the pound, is paying the equivalent, in his currency, of $2.23 per pound for those $1 per pound almonds. His price, in this case, has more than doubled—but what we receive stays the same. The French buyer is paying the equivalent of $2.57 per pound, more than 2½ times as much, while the German buyer is paying the equivalent of $1.95 per pound for those $1 per pound almonds, nearly twice as much. No thinking person would argue that doubling your price in just four years isn't going to affect sales. It can be almonds, automobiles, aircraft or whatever product you care to sell. The problem is the same for all exports. It's just exactly the opposite on imported products. They come in dirt cheap.

What has actually happened in almonds, in fact, is that we have reduced our price by one-third from $1.88 per pound in 1980 to $1.30 per pound this year. That means our growers are getting one-third less money for their product. A disaster from their standpoint. But the British buyer, because of the grossly overvalued dollar/undervalued pound, is paying 56 percent more for our $1.30 product than he did for our $1.88 product in 1980. The French buyer is paying 78 percent more, and the German buyer is paying 35 percent more. Think about that. Our growers are getting one-third less—but our buyers are paying about 50 percent more. And it's all the dollar relationship with other currencies—nothing more.

Almond growers have adjusted to the grossly overvalued dollar by taking one-third less for their product. Many others in agriculture have done the same thing. But neither almond growers nor the growers of other crops, whether it be grapes, cotton, wheat, or soybeans, will continue to operate year after year, receiving less than the cost of production. The dollar must be brought down to a more reasonable level or agriculture, as we know it today, will not survive. Neither will U.S. industry.

Approximately one-third of all the agricultural land in this country is planted for export. This is true on a national basis, as well as here in California. For many crops, such as wheat, soybeans, almonds, rice and cotton, more than half of the crop must be exported. And just in case you don't think agriculture is important to this nation any longer, consider that a recent USDA study shows that more than one out of every five jobs in the United States has it's roots on the farm. More than 22.7 million Americans—22% of the work force—earn their living in agriculture and related industries.

By mid-year, 1984, two million of the best jobs in this country had been lost. Some businesses and industries, and this includes farmers, are simply closing down—going out of business. They're bankrupt. Others are adjusting by moving their production out of this country and into areas where there is a weak currency. The great Caterpillar Tractor Company and John Deere are two examples. The distortions created by the grossly overvalued dollar have forced them to produce their products overseas, rather than in the heartland of America. Caterpillar has cut it's work force from 90,000 in 1979 to 60,000 today. This year, Caterpillar is consolidating it's production of truck-type loaders, now made in both Davenport, Iowa and Glasgow, Scotland. As might be expected, production will be consolidated in Europe. Next year, Caterpillar is going to start production of it's D-6 tractor in Grenoble, France, laying off still more workers in Davenport, Iowa.

Chrysler and General Motors are not only importing finished cars, at cheap prices, but are also importing more and more of the components they put in the so-called American car. Chrysler has cancelled their plan to build a new U.S. plant—worth billions—and tens of thousands of jobs. They'll do it overseas instead. Boeing is having difficulty competing with the Airbus. Recently our largest international carrier, Pan Am, purchased the Airbus rather than a domestic product. Boeing is trying to adjust by buying more and more of the components they put in each finished Boeing aircraft from overseas suppliers.

At our own Blue Diamond facility in Sacramento, we have learned that a piece of packaging equipment that we used to purchase from the manufacturer in Sheboygan, Wisconsin, for about $100,000 can be purchased from that Wisconsin manufacturer's Italian subsidiary for about $50,000. With the plight our farmers are in, where do you think we are purchasing that equipment? We have also found that we can buy packaging material like cellophane and foil, at about half the price from manufacturers in places like the United Kingdom and Brazil as compared to buying in the United States.

Sun-Diamond, a major California cooperative, is moving a great deal of their processing from Stockton, California to Tijuana, Mexico. Do I need to explain why? Tri-Valley, California's and perhaps the nation's largest canner, is considering doing some of it's fruit processing in Japan. And the list goes on and on.

Two million jobs have already been lost in this country and the number is climbing rapidly.

If there is anything this country has been known for, around the world, it is for being the most efficient world grain producer. Yet a few months ago, Cargill, this country's number one grain trader, found that they could land grain from Argentina in the United States cheaper than they could get it here in this country. A spokesman for the USDA, commenting on this situation, said, "When the river starts to flow backwards, there is something wrong with the plumbing," The problem, once again, is the grossly overvalued dollar.

California is the world's most efficient producer of almonds. We're highly mechanized, we have harnessed the water in the mountains to our advantage and we use all the most modern cultural practices. Pruning, pesticides, IPM, fungicides—you name it. We out-produce our next largest competitor, Spain, at the rate of 10 times as many almonds per tree or per acre. 1,500 shelled pounds per acre this year versus an average of about 150 pounds per acre in Spain. But, because of the horrible distortions in the dollar/peseta relationship, growers are removing almonds from production in California—they can't make a profit—while growers are planting in Spain because of the good profits.

What's happened to U.S. industrial exports in the last few years, what's happened to agriculture and agricultural exports, and the trends that we see developing are absolutely alarming.

If these trends continue, and I see little encouragement that they will not continue, the day will soon come when this country is unable to export anything. Our prices will simply be too high. So, some might argue, let's depend on the domestic market. That would be a good idea except that our prices will be too high here, as well. As a result of the dollar relationship with other currencies, imported products can come in much more cheaply than we can produce them at home. That's why there has been a five-fold increase in imports in just the last few years. Now conjure up in your mind, if you will, what sort of an economy we shall have in this country if we can't export what we produce, and we can't sell it here at home. I submit, we don't have any economy. We're bankrupt as a nation.

Some people say we'll be a service economy. Who are we going to service? If we don't have an agricultural industry, and we don't have a tourism industry (foreigners can't afford to come here and Americans are finding it cheaper to vacation outside the U.S.), and we don't have an automobile industry, and we don't have a steel industry, and we don't have a machine tool industry, and we don't have an aircraft industry, and we don't have an appliance industry, and we don't have a TV industry, and we don't have a photographic industry, who are we going to be servicing? Are we so naive as to think that our computer hardware and software is going to service the rest of the world? Some people say we will become a McDonald's, Burger King, Kentucky Fried Chicken economy. But, I ask, where are people going to get the income to buy fast food or anything else?

I hope, by this point in time, I have demonstrated to you a need to do something about the grossly overvalued dollar. If I have succeeded, your question should be, what? Before answering that question, however, I would like to take a moment to explain why the dollar today has such an extremely high value in the world. There are two basic reasons. Number one, the United States is considered a "safe-harbor" for overseas investors—the safest harbor in the world. No other country in the world, in the view of the world, is less likely to suffer from a civil war, insurrection, overthrow by a foreign power or any other major destabilizing event. The United States, in a few words, is the safest harbor in the world—the very best place you can invest your funds and not have any fear of losing them in some predictable or unpredictable event. We are fortunate to live in such a great country. And the world perception of this country as a safe harbor is not something any one of us would suggest should be changed.

The second reason for the unbelievable strength of the dollar is the very high real interest rates currently being paid in this country. While nominal interest rates, the amount a big borrower pays for money, have come down from about 21 percent to the 11 percent range, the real interest rates, the difference between the rate of inflation and the nominal interest rates or prime rates, are at an all-time high. This means that a foreign investor can not only invest his money here, and get security and safety, but also the highest real interest rates in the world. We must be crazy to be offering a financial package with both. If we were packaging investment opportunities for foreigners, and were really in the financial business, we would either offer them high rates, with little safety, or low rates with a great deal of safety. We offer both, thus, the influx into this country of foreign money, bolstering the dollar to new records vs. the other major currencies. And it's our goverment that's responsible.

Now anybody, with some basic economics, knows that the supply and demand equation really does work. Our problem in this country is that we have too many people trying to borrow too few dollars. And who is the biggest borrower of all? The United States Government, of course. That's what continues to keep real interest rates at such a high level.

In just three years the United States has changed from the world's largest creditor nation to the world's largest debtor nation. A few years ago Americans owned about $150 billion more abroad than foreigners owned in the United States. Now we borrow $100 billion and more abroad to finance our national debt. During this year we are now in, the U.S. foreign debt will exceed that of Brazil and Mexico, places we formerly complained about frequently, as the world's largest debtors. They were the "bad guys". But now we're the "bad guys".

In 1974, just 11 years ago, people were a bit alarmed that our annual federal budget had a deficit of just over $6 billion. Today, that number has grown by a factor of 33 times to more than $200 billion annually. In 1974, again just 11 years ago, people were a bit more alarmed by the debt that our federal government had accumulated in the first 198 years of our history—$486 billion. People described it as alarming. But in the next six years, we just about managed to double it again to $914 billion. That's right, our federal government accumulated $486 billion in debt in the first 198 years of our history, and then just about equalled that again. Added another $428 billion, in the next six years, to bring the total amount we had exceeded our spending over our income to $914 billion. And by the end of this year, we will have doubled it again, in just five years, to $1 trillion, 807 million. Probably a bit more than that, because that assumes a deficit this year of $190 billion and it's probably going to be closer to $222 billion.

Fourteen percent of the total outlays or expenditures by our federal government this year will be interest on the national debt—$131 billion. This year, 69 percent of our deficit will be interest on the national debt. Last year it was 59 percent, and the year before that it was 45 percent. Again, a very alarming trend.

Now, you might ask, why am I so alarmed by the deficit when the President campaigned against it 4½ years ago (though he left that issue to Walter Mondale in the most recent election) and virtually everyone in Congress seems to be speaking out in favor of deficit reduction?

Our problem is that the budget proposed by the President for fiscal 1986 reduces the deficit budget by only about $40 billion.

The President says we can't touch defense and we can't touch social security. Add those two together and then add in the interest on the national debt, something we can't avoid until we have massive reductions on that debt, and it adds up to about $580 billion in a $977 billion annual budget. So, with these programs, and the interest, untouchable, 60 percent of our total federal outlays, are we really going to get the necessary cuts in the 40 percent that is left—farm programs, Amtrak, and student-aid loans?

Sure, you can cut it out of the farm programs but they usually only run about $10 billion to $12 billion a year, and you can cut some from Medicare, and you can cut some from the Federal Highway Program, etc. etc., but when you get all through you can't cut enough to reduce the deficit, on an annual basis, by $50 billion or $60 billion this year, and more in the next few years.

The answer, then, is more revenue. But the President says you can't do that, and used it as part of his platform for reelection last year. The Democrats aren't going to propose tax increases because they lost the election with Mr. Mondale proposing a tax increase, and Mr. Reagan won by saying we didn't need new taxes. What all this adds up to is a pretty hopeless situation, unless Congress takes action. In my view, we need cuts, across the board, in every single category of federal spending. Farm programs, social security, Medicare, defense, student loans, Small Business Administration—you name it, it should be cut. In short, the only way to bring about massive reductions in federal spending is to share, in a fair and equitable way, a hit with every other person, interest group, and sector of the economy. No one should be spared except the absolutely destitute and those absolutely unable to help themselves.

Unfortunately, when you get through with all these cuts I think we shall still find ourselves short of our goal of a $50 to $60 billion reduction in the deficit in the next fiscal year, with even more than that in the years following. We need as a realistic goal a balanced federal budget in from four to six years and that simply can not be attained, at least in that time frame, with cuts in expenditures alone. More revenue is needed as well, and that means a broadening of the tax base, or a change in income tax rates, or perhaps a new form of tax for this country, a consumption tax or a value added tax. Time is running out. Action must be taken for massive reductions in the deficit by mid-year, for soon reelection concerns and activities will divert attention from the very tough decisions that must be made.

Drastic action by our federal government is needed and it's needed now. The huge federal deficit has forced our dollar to all-time highs, making it impossible for us to sell our goods abroad and more and more making it impossible to sell them at home. Two million American jobs were lost since 1980. In steel, we have gone from 13.8 percent imported product in 1970 to 25 percent last year. In autos, we have gone from 15.2 percent imported in 1970 to 23 percent in 1984, and that was with the voluntary auto import quotas by the Japanese in place. In machine tools, we have gone from 9½ percent imported product in 1970 to a staggering 41½ percent in 1984. In wine, we imported 11 percent in 1970 (principally premium wines), double that in 1980, and by 1984 had increased our imports to a whopping 26 percent. California wine producers, to put it simply, can hardly buy the bottles and labels, let alone buy the grapes, produce the wine, and ship it, for the price that many foreign producers are delivering their wine for in this country. So, while consumption of U.S. produced wines has increased 8 percent in the last four years, consumption of foreign wines have increased 39 percent. Nearly five times the growth of our own product.

The situation I've been describing is not an agricultural problem, but rather a major problem for this entire nation—for its industry and for its agriculture. It's a problem that must be solved if this nation is to remain economically viable.

I urge the Congress to take dramatic steps to decrease the deficit. Spending should be cut in every single category of federal spending from farm programs to social security to defense. Then Congress should further assert itself by providing for increased revenues through increased taxes. The future of American agriculture and industry depends on the action you take today.

STATEMENT OF HUBBARD S. RUSSELL, CHAIRMAN, CALIFORNIA CATTLEMEN'S ASSOCIATION FARM POLICY COMMITTEE

My name is Hubbard S. Russell. I am a cattle rancher and reside at Box 167, New Cuyama, California 93254. I currently serve as the Chairman of the California Cattlemen's Association Farm Policy Committee, and this prepared statement is submitted in behalf of the California Cattlemen's Association.

The California Cattlemen's Association was organized in 1917 and for nearly 60 years has represented the interests and concerns of beef cattle producers in California. We currently represent over 3,000 beef cattle producers in this state. This statement reflects a policy resolution prepared by our Farm Policy Committee and adopted by the California Cattlemen's Association Board of Directors on May 1, 1984.

At the outset we would like to emphasize our firm conviction that the single most important contributor to the current economic depression in agriculture, and we believe a serious threat to our nations overall economy, is the burgeoning federal deficit. This deficit erodes our financial stability in several ways. Two effects particularly detrimental to agriculture are the upward pressure on interest rates, and on the value of the dollar which is so grossly overvalued in relation to other world currencies that it has significantly reduced our export market.

Nothing would do more to stimulate our economy across the board than a significant reduction in our federal deficit. Now is the time to start. We urge both Congress and the Administration to quit jockeying for political press—to demonstrate some real statesmanship in taking joint actions to significantly reduce government spending across the board—and to realize that no significant dent can be made in the budget unless the two largest budget items, namely defense and entitlement programs, are included in the budget cutting process. If Congress and the Administration agree to including both these "sacred cows" in the budget cutting process, and require them to take proportionate cuts in their budgets, then some meaningful progress can and will be made on reducing the federal deficit this year.

With respect to Department of Agriculture budget cuts, we are willing to take our fair share of budget cuts. We have reviewed the proposed cuts in the USDA budget, and can live with most of the suggested cuts. However, there are two areas we wish to address. (1) Proposed cuts in agricultural research are short-sighted and ill advised. Research is what has given us the edge in out-producing the rest of the world, and in providing our consumers and consumers around the world an abundant supply of wholesome food and fiber at reasonable prices. Research is just as important to consumers as it is to producers, and we urge that research dollars not be cut. (2) We also must oppose the suggestion of imposing user fees on programs mandated by government for the protection of public health and safety. If we ask for a program to benefit us, then we should be willing to pay for it. But when government mandates a program on us to protect public health and safety, then government should pay for that program.

With respect to our domestic agricultural policy, we strongly support a move towards less government farm subsidies and a more market oriented farm program. But we cannot pull the rug out from agriculture overnight. No one believes more strongly than we do in a free market concept. And we support a 1985 farm bill that incorporates a phasing out of support programs for basic commodities. Target and loan prices must be brought down to market-clearing levels. We recommend that the process be started in the 1985 farm bill, but that we adopt a five-year phase down program so that producers who have been involved in support programs will have time to adjust. We also strongly support an eventual safety net suport level for all commodities set at a level which reflects an efficient producers cost of production. In all farm programs, every effort must be made to ensure that programs designed to help one commodity group do not result in a negative impact on other commodities. In this regard we strongly oppose the grazing of diverted acres. We also oppose paid dairy diversion programs. The beef cattle industry should not be the victim of an artificial drop in beef prices caused by subsidized dairy cow slaughter. We recognize dairymen are having a difficult time adjusting to a severe supply-demand imbalance, and we will support them in efforts to develop better pricing formulas and in other programs, so long as such programs do not adversely impact on the beef cattle industry. Dairy herd reduction, which must come about, will inevitably have a downard impact on beef prices. But such reduction must result from economic decision by individual dairy producers, not from a government subsidy to cull dairy cows.

With respect to U.S. Foreign Policy, we are adamant in our belief that agriculture must play a more significant role in foreign policy decisions. In the past, our foreign trade negotiators have too often sacrificed American agriculture for other concessions. Foreign trade policy implementation is dominated by the State Department and it is our observation that the State Department does not recognize or understand the importance of agriculture to a healthy domestic economy and to our important role in preserving freedom around the world. Agriculture must be given much stronger weight in foreign policy decisions if we hope to maintain our enviable position of dominance in the production of food and fiber. We also strongly believe that the U.S. must adopt a "fair" or "reciprocal" trade policy in contrast to the "free" trade policy which the current Administration expouses. We should be willing to free trade with anyone who is willing to free trade with us, but we can no longer afford to open our market to foreign imports while being excluded from reasonable access to foreign markets. Our greatest strength lies in our ability to produce an abundance of food and fiber. Yet we are drowning in our own productivity because we are unable to enter well protected and heavily subsidized foreign markets. Our foreign trade imbalance, if allowed to continue, will further weaken our domestic economy.

With respect to farm credit policies, our Association does not support proposed advance loan programs, buy-down programs, or other bail-out efforts. Such programs have seldom solved financial problems of producers and generally serve only as a bandaid and prolong the day of reckoning. We believe the federal government should get out of direct lending through FmHA or other agencies and use federal monies only to guarantee loans made by commerical lenders. Agriculture does not need a handout. What most producers need is a steady, dependable supply of credit at reasonable rates.

Thank you for the opportunity to present this statement. We stand ready to discuss these issues at any time.

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